Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

SUBJECT TO COMPLETION, DATED OCTOBER 4, 1991

ATN

4,000,000 Shares

Atlantic Tele-Network, Inc.

Common Stock

Atlantic Tele-Network, Inc. (the "Company") is the parent corporation of the Virgin Islands Telephone Corporation and the Guyana Telephone and Telegraph Company Limited. Of the 4,000,000 shares of Common Stock offered hereby, 3,750,000 shares are being sold by the Company and 250,000 shares are being sold by the Selling Stockholders. See "The Selling Stockholders." The Company will not receive any of the proceeds from the sale of shares by the Selling Stockholders.

Prior to this offering, there has been no public market for the Common Stock of the Company. The Common Stock has been approved for quotation on the NASDAQ National Market System under the symbol "ATNI". It is currently estimated that the initial public offering price per share of the Common Stock will be between $16.00 and $19.00. See "Underwriting" for the factors to be considered in determining the initial public offering price.

See "Certain Investment Considerations" for a discussion of certain factors that should be considered in connection with an investment in the Common Stock offered hereby.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discount(1)	Proceeds to Company(2)	Proceeds to Selling Stockholders(2)
Per Share	$	$	$	$
Total(3)	$	$	$	$

(1) The Company and the Selling Stockholders have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933. See "Underwriting."

(2) Before deducting expenses payable by the Company estimated at $.

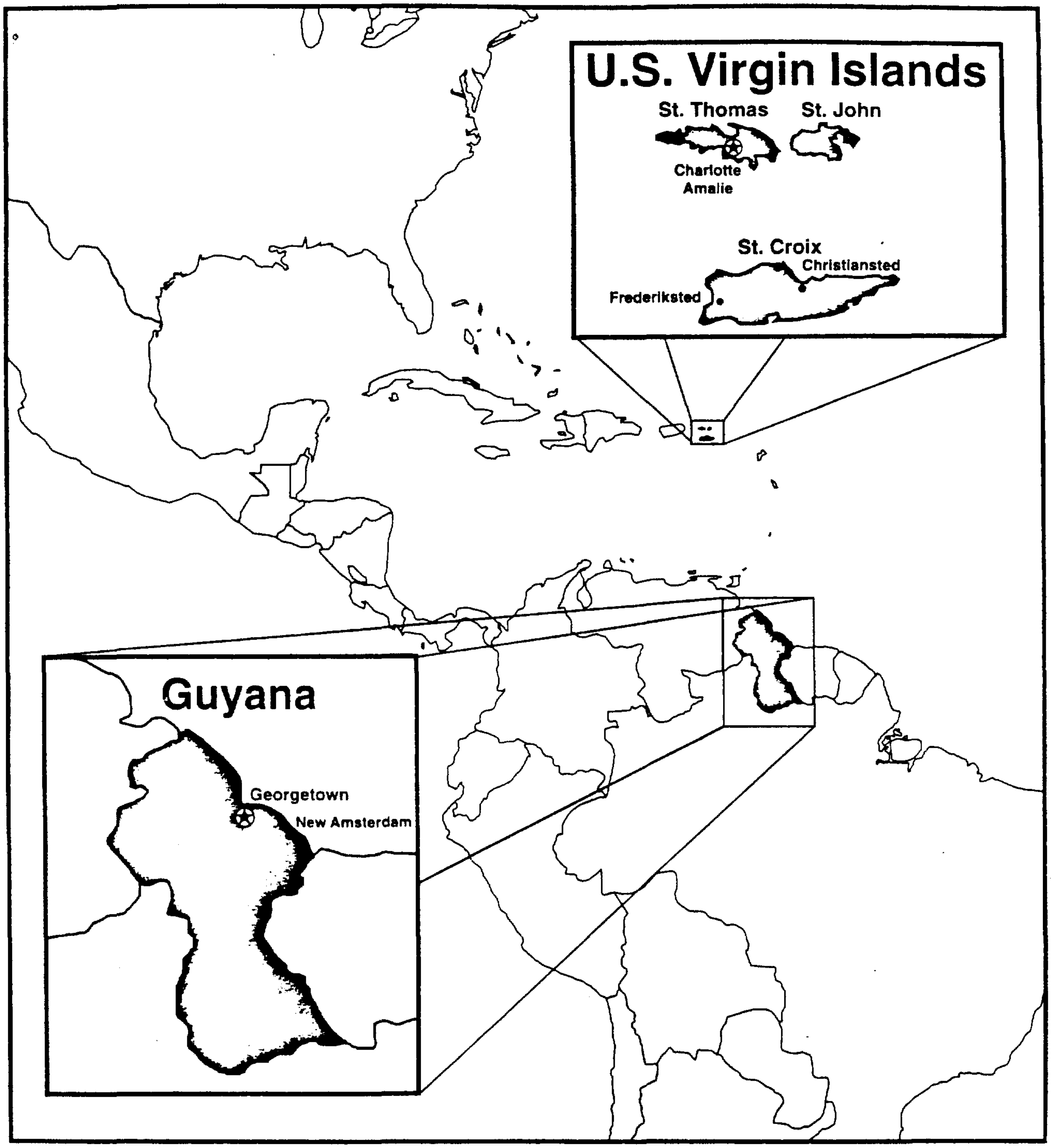
(3) The Company and the Selling Stockholders have granted the Underwriters a 30-day option to purchase up to an additional 600,000 shares of Common Stock, pro rata, on the same terms and conditions as set forth above, solely to cover over-allotments, if any. If such option is exercised in full, the total price to the public will be $, the total underwriting discount will be $, the total proceeds to the Company will be $, and the total proceeds to Selling Stockholders will be $. See "Underwriting."

The shares of Common Stock are offered by the several Underwriters named herein, subject to receipt and acceptance by them and to their right to reject any order in whole or in part. It is expected that delivery of the shares will be made on or about November , 1991.

Kidder, Peabody & Co.
Incorporated

Kemper Securities Group, Inc.

The date of this Prospectus is , 1991.



The Company intends to furnish its stockholders with annual reports containing consolidated financial statements audited by its independent public accountants and with quarterly reports containing unaudited consolidated financial information for each of the first three quarters of each fiscal year.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED IN THE OVER-THE-COUNTER MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Prospectus, including under the caption "Certain Investment Considerations."

The Company

Atlantic Tele-Network, Inc. (the "Company") is a holding company the two principal subsidiaries of which are (i) the Virgin Islands Telephone Corporation ("Vitelco"), which provides telephone service in the U.S. Virgin Islands, and (ii) the Guyana Telephone and Telegraph Company Limited ("GT&T"), which provides local service and domestic and international long-distance telecommunications service in the Co-operative Republic of Guyana, located on the northeast coast of South America.

Vitelco generates revenues from local telephone service and from access charges related to long-distance service. Based upon its 47,179 access lines in service on December 31, 1990, Vitelco was the 30th largest local telephone company of approximately 1,300 local telephone companies in the United States. During the last ten years, Vitelco has been one of the fastest growing local telephone companies in the United States, with average annual growth in access lines exceeding 6%, compared to national average annual growth of 2.4%. As of June 30, 1991, Vitelco had 49,205 access lines in service.

The Company acquired 80% of GT&T from the Government of Guyana in January 1991. GT&T is the only supplier of telecommunications service in Guyana, providing local service and domestic and international long-distance service. At the time of the acquisition, GT&T had approximately 20,000 access lines (representing only 2.6 lines per 100 inhabitants), although in excess of 4,000 of these lines were not in service. A substantial portion of GT&T's revenues and earnings is derived from incoming international calls, primarily from the United States, Canada and the United Kingdom, which are settled in hard currencies (principally U.S. dollars). GT&T is currently implementing a major expansion and modernization program. On June 28, 1991, GT&T significantly expanded its capacity for international traffic by increasing the number of circuits in operation between Guyana and the United States from 53 to 146. The initial effects of this capacity expansion were realized in GT&T's August 1991 financial results, with revenues up approximately 40% and income from operations up approximately 100% over the average monthly results for the five months ended June 30, 1991. On August 28, 1991, GT&T increased the number of circuits in operation between Guyana and the United Kingdom from 10 to 25, and GT&T anticipates expanding its present circuits to Canada prior to the end of 1991.

The Company is also engaged in other telecommunications services, principally in the Caribbean area, including providing cellular telephone service in the U.S. Virgin Islands, reselling cellular telephone service to merchant and cruise ships, reselling long-distance service in the U.S. Virgin Islands and selling and leasing telecommunications equipment in the U.S. Virgin Islands. From time to time, the Company evaluates opportunities for establishing or acquiring other telecommunications businesses through privatizations of government-owned businesses or otherwise.

The Company was formed by Cornelius B. Prior, Jr. and Jeffrey J. Prosser, the Company's only stockholders and its principal executive officers, and commenced operations in June 1987 when it acquired Vitelco from ITT Corporation. After giving effect to this offering (the "Offering"), Messrs. Prior and Prosser, together, will own approximately 64% of the Common Stock then outstanding and, together, will continue to be able to elect the Company's entire Board of Directors and control all of its fundamental business decisions.

The Offering

Common Stock offered by:	
The Company	3,750,000 shares(1)
The Selling Stockholders	250,000 shares(1)
Common Stock outstanding after this Offering	11,250,000 shares(1)
Proposed dividend	The Company currently intends to pay quarterly cash dividends of $.08 per share on the Common Stock ($.32 annually).
Use of proceeds by the Company	To repay certain indebtedness and for working capital purposes.
NASDAQ/NMS symbol	ATNI

(1) Assumes that the Underwriters' over-allotment option is not exercised.

SUMMARY CONSOLIDATED FINANCIAL DATA

(In thousands, except per share data)

	Year Ended December 31,					Six Months Ended June 30,		Pro Forma Results(4)	
	1986(1) Predecessor Company	1987(1) Pro forma Combined	1988	1989(2)(3)	1990(3)	1990(3)	1991	Year Ended December 31, 1990	Six Months Ended June 30, 1991
Statement of Operations Data:									
Telephone operations:									
Total revenues	$ 41,050	$ 47,435	$ 48,283	$ 49,238	$ 50,764	$ 23,137	$ 35,261	$74,398	$37,139
Total expenses	30,238	30,498	30,427	32,623	34,665	14,200	22,100	45,833	22,831
Income from telephone operations	10,812	16,937	17,856	16,615	16,099	8,937	13,161	28,565	14,308
Income from other operations	—	472	301	569	1,159	852	326	1,159	326
Non-operating revenues and expenses (other than interest), net	170	(1,032)	(2,269)	(1,787)	(330)	(369)	(981)	(1,220)	(968)
Income from continuing operations before interest expense, income taxes and minority interest	10,982	16,377	15,888	15,397	16,928	9,420	12,506	28,504	13,666
Interest expense, net	64	9,868	7,661	9,695	10,232	4,847	6,241	11,074	6,343
Income from continuing operations before income taxes and minority interest	10,918	6,509	8,227	5,702	6,696	4,573	6,265	17,430	7,323
Income from continuing operations	6,225	1,986	2,944	2,884	4,234	2,776	2,664	8,308	3,080
Income per share from continuing operations	$ —	$ .26	$ .39	$ .38	$ .56	$ .37	$ .36	$ 1.11	$ .41
Weighted average number of shares	—	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500

	December 31, 1990	June 30, 1991 Actual	June 30, 1991 As Adjusted(5)
Balance Sheet Data:			
Fixed assets	$136,697	$175,505	$175,505
Total assets	193,620	240,036	253,453
Short-term debt (including current portion of long-term debt)	18,433	18,021	6,601
Long-term debt, net	128,895	166,594	133,676
Stockholders' equity	7,019	6,794	64,699

(1) On June 24, 1987, Atlantic Tele-Network Co. ("ATN-VI"), then a 55%-owned subsidiary of the Company, acquired Vitelco from a subsidiary of ITT Corporation. The Company did not engage in operations prior to such date. Accordingly, the results of operations for the year ended December 31, 1987 are the pro forma combined results for the Company, reflecting the acquisition of Vitelco as if it had occurred on January 1, 1987, and the results of operations for the year ended December 31, 1986 are for Vitelco, prior to the acquisition.

(2) On January 13, 1989, the Company purchased the 45% minority interest in ATN-VI with the result that ATN-VI became a wholly-owned subsidiary of the Company.

(3) The results of operations for the years ended December 31, 1989 and 1990 and for the six-month period ended June 30, 1990 were affected by Hurricane Hugo. Income for these periods includes insurance proceeds for business interruption resulting from Hurricane Hugo, which the Company has recognized but not received, in the amounts of $3,880,000, $1,158,000 and $1,158,000 for the respective periods. See "Business—Litigation."

(4) On January 28, 1991, the Company purchased 80% of GT&T. The pro forma results reflect the acquisition of GT&T as if it had occurred on January 1, 1990 but do not reflect this Offering or the application of the proceeds of this Offering. As a result of repaying certain long-term debt from the net proceeds of this Offering, the Company will recognize a non-recurring expense of approximately $1.8 million, after tax, from the write-off of unamortized debt issuance costs. This write-off will occur upon the completion of this Offering.

(5) Adjusted to reflect the sale of 3,750,000 shares of Common Stock by the Company and the application of the proceeds therefrom, assuming a price of $17.50 per share, with net cash proceeds of approximately $59.7 million. See "Use of Proceeds" and "Capitalization."

THE COMPANY

Atlantic Tele-Network, Inc., a Delaware corporation (the "Company"), is a holding company the two principal subsidiaries of which are (i) the Virgin Islands Telephone Corporation ("Vitelco"), which provides telephone service in the U.S. Virgin Islands, and (ii) the Guyana Telephone and Telegraph Company Limited ("GT&T"), which provides local service and domestic and international long-distance telecommunications service in the Co-operative Republic of Guyana, located on the northeast coast of South America.

Vitelco generates revenues from local telephone service and from access charges (to subscribers and long-distance carriers) related to long-distance service. Based upon its 47,179 access lines in service on December 31, 1990, Vitelco was the 30th largest local telephone company of approximately 1,300 local telephone companies in the United States. Further, based upon data provided by the United States Telephone Association (the "USTA"), during the last ten years, Vitelco has been one of the fastest growing local telephone companies in the United States, with average annual growth in access lines exceeding 6%, compared to national average annual growth of 2.4%. The Company's growth was interrupted in September 1989, when Hurricane Hugo, the first hurricane to hit the U.S. Virgin Islands directly since 1928, destroyed a substantial portion of Vitelco's outside plant (reducing the number of access lines to fewer than 12,000). Within seven months following the hurricane, Vitelco was able to replace substantially all of its destroyed plant and resume access line growth. As of June 30, 1991, Vitelco had 49,205 access lines in service.

The Company acquired 80% of GT&T from the Government of Guyana in January 1991. GT&T is the only supplier of telecommunications service in Guyana, providing local service and domestic and international long-distance service. At the time of the acquisition, GT&T had approximately 20,000 access lines (representing only 2.6 lines per 100 inhabitants), although in excess of 4,000 of these lines were not in service. A substantial portion of GT&T's revenues and earnings is derived from incoming international calls, primarily from the United States, Canada and the United Kingdom, which are settled in hard currencies (principally U.S. dollars). GT&T is currently implementing a major expansion and modernization program. On June 28, 1991, GT&T significantly expanded its capacity for international traffic by increasing the number of circuits in operation between Guyana and the United States from 53 to 146. The initial effects of this capacity expansion were realized in GT&T's August 1991 financial results, with revenues up approximately 40% and income from operations up approximately 100% over the average monthly results for the five months ended June 30, 1991. On August 28, 1991, GT&T increased the number of circuits in operation between Guyana and the United Kingdom from 10 to 25, and GT&T anticipates expanding its present circuits to Canada prior to the end of 1991. See "Certain Investment Considerations—Recent Acquisition; Commitments in Guyana," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business—GT&T—Expansion Program."

The Company is also engaged in other telecommunications services, principally in the Caribbean area, including providing cellular telephone service in the U.S. Virgin Islands to marine and land-based subscribers through its subsidiary, Vitelcom Cellular, Inc. ("Vitelcom Cellular"), reselling cellular telephone service to merchant and cruise ships along the east and west coasts of North and South America and in the Far East through its subsidiary, Maritime Cellular Tele-Network, Inc. ("MCN"), reselling long-distance service in the U.S. Virgin Islands through CALLS, an operating division of one of the Company's subsidiaries, and selling and leasing telecommunications equipment in the U.S. Virgin Islands through its subsidiary, Vitelcom, Inc. ("Vitelcom").

The Company from time to time evaluates opportunities for establishing or acquiring other telecommunications businesses, principally in the Caribbean area and Latin America, through privatizations of government-owned businesses or otherwise, and may make investments in such businesses in the future. The Company is not presently engaged in active negotiations with respect to any acquisitions.

The Company was incorporated in 1989 and is a successor by merger to Atlantic Tele-Network Management Company, a Nebraska corporation, which commenced operations on June 24, 1987 when, through a subsidiary, it acquired Vitelco from a subsidiary of the ITT Corporation ("ITT"). Each of Messrs. Prior and Prosser (the "Selling Stockholders") owns 50% of the outstanding Common Stock;

immediately after this Offering, each will own approximately 32% of the Common Stock then outstanding (assuming that the Underwriters' over-allotment option is not exercised) and, together, will continue to be able to elect the Company's entire Board of Directors and control all of the Company's fundamental business decisions.

The term "Company" refers to Atlantic Tele-Network, Inc., its predecessor, Atlantic Tele-Network Management Company, and, except where the context requires otherwise, its subsidiaries. The Company's principal executive offices are located at 48A Kronprindsens Gade, Charlotte Amalie, St. Thomas, U.S. Virgin Islands 00801, and its telephone number is (809) 777-8000.

CERTAIN INVESTMENT CONSIDERATIONS

Prospective investors should consider carefully all of the information presented in this Prospectus in deciding whether to purchase shares of Common Stock and, in particular, should consider the following:

FCC and PSC Regulation of Vitelco; Regulation of GT&T

The Federal Communications Commission (the "FCC") and the Virgin Islands Public Services Commission (the "PSC") have the authority to regulate rates, ownership and control of transmission facilities, and the terms and conditions under which Vitelco's regulated telephone services may be provided. Changes in the regulation of Vitelco's activities, including changes in the allowable rates charged for Vitelco's services, could materially affect the Company's results of operations. See "Business—Regulation—U.S. Virgin Islands."

Since the Company's acquisition of Vitelco in June 1987, Vitelco has been involved in numerous administrative and legal proceedings with the PSC relating to Vitelco's rates for local telephone service and other matters. On July 26, 1991, Vitelco entered into an agreement with the PSC (the "PSC Agreement") in which, among other things, Vitelco agreed to achieve by December 31, 1991 and maintain thereafter a specified debt/equity ratio, and which limits the payment of dividends by Vitelco. Vitelco also agreed to engage a new chief executive officer by July 26, 1992, following which Messrs. Prior and Prosser would retire as executives of Vitelco but would retain their positions on Vitelco's board of directors. Currently, Vitelco is involved in a rate proceeding before the PSC in which the PSC is seeking a material rate reduction for local telephone service, and, as a consequence of its investment in plant following Hurricane Hugo, Vitelco is seeking a substantial rate increase. Vitelco may appeal any adverse decision of the PSC in this matter to the U.S. District Court. See "Business—Regulation—U.S. Virgin Islands."

The business of GT&T and the rates it charges for telephone services and other licensed activities are subject to comprehensive regulation by the Guyana Public Utilities Commission (the "PUC") under the Guyana Telecommunications Act 1990, the Guyana Public Utilities Commission Act 1990 and GT&T's license from the Government of Guyana (the "License"). Prior to the Company's acquisition of GT&T, the Government of Guyana had no experience in regulation of privately-owned public utilities. See "Business—Regulation—Guyana."

The FCC has initiated proceedings with respect to all international accounting rates paid or received by United States carriers, which may result in reductions both in the rates charged by GT&T to United States carriers for international calls originating in the United States (including collect calls from Guyana to the United States) and in GT&T's payments for direct calls to the United States. See "Business—Regulation—Guyana."

Recent Acquisition; Commitments in Guyana

The Company acquired GT&T in January 1991 and is obligated to expand significantly GT&T's existing facilities and telecommunications operations and to improve service within a three-year period pursuant to an expansion and service improvement plan (the "Expansion Plan") agreed to with the

Government of Guyana. Since the acquisition, the Company has determined that certain aspects of the Expansion Plan cannot be carried out when and as originally planned and is currently discussing changes in these aspects of the Expansion Plan with the Government of Guyana. The Government of Guyana has not yet agreed to these changes, and failure to fulfill the terms of the Expansion Plan could result in monetary penalties or revocation of the License. In addition, a government official has raised certain concerns about the manner in which GT&T is managing its affairs and implementing the Expansion Plan. The Company believes that all concerns have been or will be adequately addressed and none will have a material adverse effect on the Company's Guyana operations. Although it has had experience in the extensive replacement of telephone plant and equipment in the U.S. Virgin Islands, as a result of the repairs to Vitelco's plant and property necessitated by Hurricane Hugo in 1989, the Company had no experience operating a business in Guyana prior to its acquisition of GT&T in January 1991. While the Company expects that the Expansion Plan will be implemented by January 28, 1994 and within budget, there can be no assurance that it will be able to do so. See "Business—GT&T" and "Business—Regulation—Guyana."

Foreign Political Concerns

The Company's presence in Guyana exposes it to potential economic and political risks. Since 1985, Guyana has been making the transition to a market economy with private industry from a socialist system with nationalized industry which was in effect since the mid-1970s. Although the country is rich in natural resources, it has a low per capita gross national product and substantial unemployment. Guyana has been governed since 1968 by a single political party. Elections, under the Guyana constitution, must be held at least once every five years, and the next elections must be held by the end of December 1991. While all political parties participating in the elections have declared publicly that they support continued foreign private investment, there can be no assurance as to a new government's position with respect to foreign investment or with respect to the regulation of GT&T. The Company has obtained insurance from the Overseas Private Investment Corporation ("OPIC"), a United States government agency the purpose of which is to promote economic growth in approved developing countries by encouraging private investment, with respect to its initial investment in Guyana for total expropriation or political violence. The OPIC insurance covers only specified risks and insures the Company for less than the fair market value of its investment in GT&T. It does not insure against future loss of revenues or profits. See "Business—GT&T" and "The Co-operative Republic of Guyana."

Capital Resources and Liquidity

Prior to the completion of this Offering, the Company has been highly leveraged. Principally as a result of (i) the capital required to restore the property damage caused by Hurricane Hugo, (ii) the revenue losses caused by Hurricane Hugo, (iii) the Company's inability to obtain full payment from its insurer with respect to its losses arising from Hurricane Hugo (the Company is claiming approximately $32 million from its insurer, in addition to amounts already received) and (iv) the Company's investment of approximately $10.2 million in the long-distance business in Puerto Rico, which has incurred substantial losses and is being discontinued, the Company's liquidity and capital resources are strained. The Company has been unable to repay its short-term lines of credit within applicable time periods and has been in default of certain financial covenants in its long-term debt. On September 26, 1991, the Company borrowed $6 million on a short-term basis to cure certain of these defaults, and it has obtained waivers of the remaining defaults from the applicable lenders. The Company believes that, following the completion of this Offering, the Company will have adequate liquidity and capital resources for its operations and capital expenditures. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

Control by the Selling Stockholders

After the sale of the shares of Common Stock offered hereby, the Selling Stockholders (Messrs. Prior and Prosser), together, will own approximately 64% of the Common Stock then outstanding (assuming that the Underwriters' over-allotment option is not exercised). As long as the Selling Stockholders continue to own in the aggregate more than 50% of the Company's outstanding shares of Common Stock, they will collectively have the power to amend the Company's Certificate of Incorporation, elect all of the directors, effect fundamental corporate transactions such as mergers, asset sales and the sale of the Company and otherwise direct the Company's business and affairs without the approval of any other stockholder. The Selling Stockholders and the Company are parties to a stockholders agreement (the "Stockholders Agreement") pursuant to which each of the Selling Stockholders has the right to nominate an equal number of members of the Boards of Directors of the Company and each of its subsidiaries (except for certain directors of subsidiaries nominated pursuant to agreements with minority stockholders or creditors of those subsidiaries or nominated by mutual agreement of the Selling Stockholders), and each Selling Stockholder has agreed to vote for the other Selling Stockholder's nominees. In addition, each Selling Stockholder has a right of first refusal with respect to proposed sales of the other's shares, except in certain limited circumstances. See "The Selling Stockholders—Stockholders Agreement."

Shares Eligible for Future Sale

Except for the shares of Common Stock offered hereby, the Company and the Selling Stockholders have agreed not to offer or sell any shares of Common Stock for a period of 180 days after the date of this Offering without the prior written consent of the representatives of the Underwriters. Subject to certain limitations, including restrictions on volume, following such 180-day period, each of the Selling Stockholders will be entitled to sell shares of Common Stock in the public market pursuant to Rule 144 under the Securities Act of 1933 (the "Act"). See "Capital Stock—Shares Eligible for Future Sale." Each of the Selling Stockholders also has the right, subject to certain conditions, to require the Company to file one registration statement for the sale by the Selling Stockholders in a public offering of shares of Common Stock and has certain rights (subject to certain exceptions) to include his shares of Common Stock in any other registration statement filed by the Company. Sales of substantial amounts of Common Stock in the public market after this Offering pursuant to registration rights, under Rule 144 or otherwise, could adversely affect prevailing market prices for the Common Stock. See "The Selling Stockholders" and "Capital Stock."

No Prior Market; Dilution

Prior to this Offering, there has been no public market for the Common Stock, and there is no assurance that an active public market for the Common Stock will develop or continue after this Offering. The initial public offering price has been determined by negotiation among the Company, the Selling Stockholders and the representatives of the Underwriters based upon several factors and may not be indicative of the market price for the Common Stock following this Offering. See "Underwriting." The stock market has experienced significant price and volume fluctuations which have affected the market price for many companies and which have often been unrelated to the operating performance of these companies. These broad market fluctuations may adversely affect the market price of the Common Stock. In addition, investors participating in this Offering will incur immediate substantial net tangible book value dilution. See "Dilution."

USE OF PROCEEDS

The proceeds (net of underwriting discounts and commissions and estimated Offering expenses) to be received by the Company from the sale of shares of Common Stock offered hereby, at an assumed initial offering price of $17.50 per share (the midpoint of the estimated price range stated on the cover of this Preliminary Prospectus), are estimated to be $59.7 million, of which approximately $44.5 million will be used to repay indebtedness. Approximately $17.5 million will be used to repay in full indebtedness under the loan agreement between the Company and Northern Telecom International Finance B.V. ("NTIF"), dated as of January 28, 1991 (the "GT&T Acquisition Loan"), $6 million will be used by the Company to repay short-term debt obligations to the Rural Telephone Finance Cooperative (the "RTFC") (the "Company RTFC Loan"), and substantially all of the remainder of the proceeds of this Offering will be loaned by the Company to Atlantic Tele-Network Co., a wholly-owned subsidiary of the Company ("ATN-VI"), on a subordinated basis. Of the amount loaned to ATN-VI by the Company, approximately $10 million will be used by ATN-VI to reduce its long-term indebtedness to the RTFC (the "ATN-VI/RTFC Loan"), and the remainder will be contributed by ATN-VI to the capital of Vitelco or paid to Vitelco in payment of intercompany debt required to be repaid pursuant to the PSC Agreement. Approximately $2.9 million of the amount contributed to Vitelco will be used by Vitelco to reduce its long-term indebtedness to the RTFC (the "Vitelco/RTFC Loan"), approximately $3.6 million will be used by Vitelco to reduce long-term indebtedness of Vitelco to the Rural Electrification Administration (the "REA") (the "REA Loan"), and the remainder of the amount contributed to Vitelco will be used for working capital purposes, including repayment of approximately $4.5 million of short-term indebtedness of Vitelco. Any other proceeds of this Offering not loaned to ATN-VI will be used by the Company or one of its other subsidiaries for working capital purposes.

The GT&T Acquisition Loan, which will be repaid in full with the proceeds of this Offering, is scheduled to mature on January 28, 1994 and bears interest at a variable rate equal to LIBOR (as defined therein) plus 4% (which was 9.9% at June 30, 1991), and was used to finance the Company's acquisition of its 80% interest in GT&T and certain related closing fees and expenses. The Company RTFC Loan, which was incurred in September 1991 and enabled the Company to cure certain defaults in long-term debt, is scheduled to mature on October 30, 1992 and bears interest at a variable rate equal to the prime rate plus 3% (which was 11% at September 24, 1991). The Company RTFC Loan was used to repay portions of Vitelco's short-term indebtedness to the RTFC and for working capital purposes. The ATN-VI/RTFC Loan, which matures on December 30, 2002 and bears interest at a variable rate (which was 7.125% at June 30, 1991), and the Vitelco/RTFC Loan, which matures on December 30, 2002, were incurred in December 1987 to refinance indebtedness incurred in connection with the acquisition of Vitelco. The portion of the Vitelco/RTFC Loan to be repaid out of the proceeds of this Offering bears interest at a variable rate which was 7.125% at June 30, 1991. Amounts outstanding under the REA Loan, which matures in May 2012 and bears interest at a fixed rate of 5%, were borrowed pursuant to a loan agreement entered into in May 1990 and were used principally to finance the restoration of damaged facilities following Hurricane Hugo as well as to finance the construction and operation of additional telephone facilities. See "Capitalization."

The Company will not receive any of the proceeds from the sale of shares of Common Stock by the Selling Stockholders.

DIVIDEND POLICY

Upon consummation of this Offering, it is the current intention of the Company to declare and pay quarterly cash dividends on its Common Stock. The Company currently plans to pay quarterly cash dividends of $.08 per share of Common Stock ($.32 annually), commencing with a dividend with respect to the first quarter of 1992, subject to declaration by the Board of Directors of the Company.

Dividends payable by the Company to foreign persons are generally subject to United States withholding tax. However, in 1992, and for some period of time thereafter, the Company anticipates that more than 80% of any dividends paid by the Company will be exempt from U.S. withholding tax. See "Withholding Taxes on Dividends."

The declaration and payment of dividends is at the discretion of the Board of Directors of the Company and will be dependent upon the results of operations, financial condition, capital requirements, contractual restrictions, regulatory actions, future prospects and profitability of the Company and its principal subsidiaries and other factors deemed relevant at that time by the Board of Directors. There can be no assurance that the Company will pay any dividends at any time in the future.

The Company's ability to pay dividends is dependent upon the receipt of funds from its subsidiaries, principally Vitelco and GT&T. Certain loan agreements and the PSC Agreement limit the amount of dividends which Vitelco and the Company's other U.S. Virgin Islands subsidiaries may pay to the Company. See "Capitalization," "Business—Regulation—U.S. Virgin Islands" and Note I to the Consolidated Financial Statements. There will be no contractual restrictions on the payment of dividends from GT&T to the Company, and the Company expects that the cash flow generated from GT&T will be sufficient to pay cash dividends at the rate stated above.

DILUTION

Net tangible book value is the net book value determined in accordance with generally accepted accounting principles, less intangible assets such as goodwill, franchise rights and debt issuance costs. Net tangible book value includes, for purposes of the following discussion, the Company's approximately $33,354,000 of unamortized cost in excess of underlying net book value of Vitelco which is included in net fixed assets in the Company's Consolidated Financial Statements. At June 30, 1991, the Company had negative net tangible book value of $12,155,000, or negative $1.62 per share. Net tangible book value per share is determined by dividing the net tangible book value of the Company by the number of shares of Common Stock outstanding. At June 30, 1991, after giving effect to the sale of 3,750,000 shares of Common Stock by the Company at an assumed initial offering price of $17.50 per share (the midpoint of the estimated price range stated on the cover of this Preliminary Prospectus), the use of the estimated net proceeds therefrom as described in "Use of Proceeds" but without giving effect to any other changes subsequent to that date, the pro forma net tangible book value of the Company would have been $47,526,000, or $4.22 per share. This represents an immediate increase in net tangible book value of $5.84 per share to existing stockholders and an immediate dilution of $13.28 per share to new investors purchasing shares at the assumed initial public offering price. Dilution, for purposes of this section, is determined by subtracting the pro forma net tangible book value per share at June 30, 1991, as adjusted for this Offering, from the assumed initial public offering price paid by a new investor for a share of Common Stock. The following table illustrates this per share dilution:

		June 30, 1991
Assumed initial public offering price(1)		$17.50
Net tangible book value before Offering	($1.62)	
Increases attributable to new investors	5.84	
Pro forma net tangible book value after Offering		4.22
Dilution to new investors		$13.28

(1) Before deducting underwriting discounts and offering expenses.

The Company will not receive any of the proceeds from the sale of the Common Stock being sold by the Selling Stockholders, and, accordingly, such proceeds will not have any effect upon the net tangible book value per share of the Common Stock.

The following table summarizes, on a pro forma basis as of June 30, 1991, the number of shares purchased from the Company, the total consideration and the average price per share paid by the existing stockholders when they purchased shares of the Company's predecessor at the commencement of its operations in June 1987 and the price to be paid to the Company by new investors in this Offering (assuming that the Underwriters' over-allotment option is not exercised):

	Shares Purchased from the Company		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders(1)	7,500,000	66.7%	$ 950	—(2)	$— (3)
New investors	3,750,000	33.3	65,625,000(4)	99.9%	$17.50
Total	11,250,000	100.0%	$65,625,950	100.0%	

(1) The Company, through ATN-VI, acquired Vitelco from a subsidiary of ITT for approximately $87 million in cash. In order to finance the acquisition, to acquire the rights of certain other prospective participants in the Company and to pay certain fees (including advisory, accounting and financing fees), the Company raised approximately $97 million, consisting of $94 million from a bridge loan from The E.F. Hutton Group, Inc. ("Hutton") and $2 million from an equity investment by E.F. Hutton LBO, Inc. ("Hutton LBO"), with the balance provided by Messrs. Prior and Prosser through loans of $1 million and an equity investment of $950. On December 30, 1987, Hutton's $94 million bridge loan was repaid in full with the proceeds of two loans from the RTFC. In January 1989, the Company acquired Hutton LBO's 45% equity interest in ATN-VI, then the sole directly-owned subsidiary of the Company (which, in turn, owned all of the outstanding capital stock of Vitelco) for $3.2 million. See "Certain Relationships and Related Transactions" and "The Selling Stockholders."

(2) Less than 0.1%.

(3) Less than $.01.

(4) Assuming an offering price of $17.50.

CAPITALIZATION

The following table sets forth the unaudited capitalization of the Company and its consolidated subsidiaries at June 30, 1991 and as adjusted to reflect the sale of 3,750,000 shares of Common Stock by the Company (assuming that the Underwriters' over-allotment option is not exercised), at an assumed initial offering price of $17.50 per share (the midpoint of the estimated price range stated on the cover of this Preliminary Prospectus) and the application of the proceeds as described in "Use of Proceeds." The table and the related notes should be read in conjunction with the Company's Consolidated Financial Statements and the related notes thereto and the Company's unaudited financial statements for the six-month period ended June 30, 1991, included elsewhere in this Prospectus.

	June 30, 1991	
	Actual	**As Adjusted**
	(In thousands)	
Long-term debt (excluding current portion)(1):		
REA note(2)	$ 57,138	$ 53,514
RTFC notes(3)(4)	74,550	61,674
Other	34,906	18,488
Total long-term debt, net	166,594	133,676
Stockholders' equity:		
Common stock, $.01 par value; 20,000,000 shares authorized; 7,500,000 shares issued and outstanding; as adjusted, 11,250,000 shares issued and outstanding	75	113
Additional paid-in capital	—	59,643
Retained earnings(5)	6,719	4,943
Total stockholders' equity	6,794	64,699
Total capitalization	$173,388	$198,375

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(1) See "Use of Proceeds" and Note I to the Company's Consolidated Financial Statements for descriptions of the long-term debt instruments of the Company and its subsidiaries and related security arrangements. At June 30, 1991, short-term debt (including the current portion of long-term debt) was $18,021,000; after completion of this Offering, short-term debt (including the current portion of long-term debt) will be $6,601,000.

(2) The REA Loan and applicable REA regulations restrict Vitelco's ability to pay dividends in an amount greater than 25% of its net earnings for the previous year unless Vitelco satisfies certain net worth tests, and, at June 30, 1991, Vitelco had no ability to pay any additional dividends. See Note I to the Consolidated Financial Statements.

An additional $9.1 million of loans from the REA is available to Vitelco under its existing loan agreement, and Vitelco intends to apply for an additional loan authorization from the REA prior to the end of 1991. Under the REA's current policies, loan funds are available for most, but not all, of Vitelco's capital expenditure needs.

For several years, the Bush and Reagan administrations have sought to obtain legislation curtailing REA's loan program. However, to date, Congress has not authorized any significant limitations in the REA program. Vitelco is currently being audited by the accounting staff of the REA. While such an audit is normal REA procedure, this is the first such audit of Vitelco, and Vitelco is not in a position to predict what issues, if any, may be raised by REA as a result of its audit.

(3) The ATN-VI/RTFC Loan permits ATN-VI to pay dividends to the Company if certain financial tests are met. At June 30, 1991, these tests were not met.

(4) Long-term debt is net of the $9,823,000 investment in RTFC subordinated capital certificates, pursuant to a loan agreement with the RTFC. See Note I to the Consolidated Financial Statements.

(5) As a result of repaying certain long-term debt from the net proceeds of this Offering, the Company will recognize a non-recurring expense of approximately $1.8 million, after tax, from the write-off of unamortized debt issuance costs. This write-off will occur upon the completion of this Offering.

PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS DATA

The following unaudited pro forma consolidated statement of operations data is based upon the historical consolidated financial statements of the Company and its subsidiaries and reflects the pro forma effect of the acquisition by the Company of its 80% interest in GT&T on January 28, 1991, as if it had occurred as of January 1, 1990. The following information should be read in conjunction with the Company's Consolidated Financial Statements and the related notes thereto, and the Company's unaudited consolidated financial statements for the six months ended June 30, 1991, included elsewhere in this Prospectus.

	Year Ended December 31, 1990				Six Months Ended June 30, 1991			
	Company Historical Results	GT&T Historical Results	Adjust-ments(1)	Pro Forma Results	Company Historical Results	GT&T Historical Results(1)	Adjust-ments(1)	Pro Forma Results
	(Unaudited, in thousands, except per share data)							
Telephone operations:								
Net revenues	$50,764	$23,634	$ —	$74,398	$35,261	$1,878	$—	$37,139
Net expenses	34,665	10,988	180(a)	45,833	22,100	716	15(a)	22,831
Income from telephone operations	16,099	12,646	(180)	28,565	13,161	1,162	(15)	14,308
Income from other operations	1,159	—	—	1,159	326	—	—	326
Non-operating revenues and expenses (other than interest), net	(330)	(636)(2)	(254)(c)	(1,220)	(981)	34	(21)(c)	(968)
Income from continuing operations before interest expense, minority interest and income taxes	16,928	12,010	(434)	28,504	12,506	1,196	(36)	13,666
Interest expense, net	10,232	(236)	1,078(b)	11,074	6,241	37	65(b)	6,343
Income from continuing operations before income taxes and minority interest	6,696	12,246	(1,512)	17,430	6,265	1,159	(101)	7,323
Income taxes	2,469	5,616	(388)(d)	7,697	3,187	525	(21)(d)	3,691
Income from continuing operations before minority interest	4,227	6,630	(1,124)	9,733	3,078	634	(80)	3,632
Minority interest	7	—	(1,432)	(1,425)	(414)	—	(138)	(552)
Income from continuing operations	$ 4,234	$ 6,630	($2,556)	$ 8,308	$ 2,664	$ 634	($218)	$ 3,080
Income per share from continuing operations	$ .56	$ .89	($ .34)	$ 1.11	$ .36	$ .08	($ .03)	$ .4[illegible]

(1) The pro forma adjustments to the combined statements of operations include the following: (a) increase in amortization/depreciation relating to fixed assets and intangible assets to reflect the increase in the recorded asset values as a result of the acquisition of GT&T; (b) increase in interest expense attributable to debt issued to finance the acquisition of GT&T, net of interest expense attributable to the GT&T debt which was assumed by the Government of Guyana on the date of the acquisition; (c) increase in non-operating expenses to reflect the amortization of deferred costs and additional expenses associated with the acquisition of GT&T; and (d) the change in income tax expense as a result of the pro forma adjustments which affect taxable income, and to reflect tax benefits directly attributable to the acquisition of GT&T. The Company's historical results for the six months ended June 30, 1991 include results of GT&T from February 1, 1991. Accordingly, the GT&T historical results and the pro forma adjustments shown for the six-month period are for the month of January only.

(2) The GT&T historical results for the year ended December 31, 1990 reflect a foreign exchange loss (pre-tax) of $792,000, which resulted from a change in the official exchange rate set by the Government of Guyana. See Note B to the Consolidated Financial Statements.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated statement of operations data set forth below with respect to the years ended December 31, 1988, 1989 and 1990 and the selected consolidated balance sheet data at December 31, 1989 and 1990 are derived from, and are qualified by reference to, the audited consolidated financial statements included elsewhere in this Prospectus and should be read in conjunction with those consolidated financial statements and notes thereto. The selected consolidated statement of operations data for the year ended December 31, 1986 and selected consolidated balance sheet data at December 31, 1986, 1987 and 1988 are derived from audited financial statements not included in this Prospectus. The selected consolidated statement of operations data for the year ended December 31, 1987 are the pro forma combined results of the Company reflecting the acquisition by ATN-VI of Vitelco as if it had occurred on January 1, 1987. The selected consolidated statement of operations data set forth below with respect to each of the six-month periods ended June 30, 1990 and 1991 and the selected consolidated balance sheet data as of June 30, 1991 set forth below are derived from the unaudited consolidated financial statements included elsewhere in this Prospectus and include, in the opinion of management, all adjustments (which include only normal recurring accruals) necessary for a fair presentation in accordance with generally accepted accounting principles. The Company's selected consolidated statement of operations data for the six months ended June 30, 1991 include the results of operations of GT&T since February 1, 1991. See Notes A and B to the Consolidated Financial Statements. The selected consolidated statement of operations data for the six months ended June 30, 1991 are not necessarily indicative of results to be expected for any future period. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	1986(1) Predecessor Company	Year Ended December 31, 1987(1) Pro Forma Combined	1988	1989(2)(3)	1990(3)	Six Months Ended June 30, 1990(3)	1991	Pro Forma Results(4) Year Ended December 31, 1990	Pro Forma Results(4) Six Months Ended June 30, 1991
		(In thousands, except per share data)							
Statement of Operations Data:									
Telephone operations:									
Revenues:									
Local exchange service	$19,841	$18,414	$19,230	$16,535	$19,141	$ 7,451	$10,901	$20,040	$10,972
Access charges	14,076	21,370	12,801	16,889	16,718	7,730	8,132	16,718	8,132
International long-distance revenues	—	—	—	—	—	—	8,319	22,413	10,121
Universal service fund	407	706	1,847	2,903	3,191	1,595	1,554	3,191	1,554
Billing and other revenues	5,488	5,314	12,449	7,006	7,953	3,832	4,686	8,275	4,691
Directory advertising	1,238	1,631	1,956	2,335	2,701	1,469	1,669	2,701	1,669
Business interruption claim	—	—	—	3,570	1,060	1,060	—	1,060	—
Total revenues	41,050	47,435	48,283	49,238	50,764	23,137	35,261	74,398	37,139
Total expenses	30,238	30,498	30,427	32,623	34,665	14,200	22,100	45,833	22,831
Income from telephone operations	10,812	16,937	17,856	16,615	16,099	8,937	13,161	28,565	14,308
Income from other operations	—	472	301	569	1,159	852	326	1,159	326
Non-operating revenues and expenses (other than interest), net	170	(1,032)	(2,269)	(1,787)	(330)	(369)	(981)	(1,220)	(968)
Income from continuing operations before interest expense, income taxes and minority interest	10,982	16,377	15,888	15,397	16,928	9,420	12,506	28,504	13,666
Interest expense, net	64	9,868	7,661	9,695	10,232	4,847	6,241	11,074	6,343
Income from continuing operations before income taxes and minority interest	10,918	6,509	8,227	5,702	6,696	4,573	6,265	17,430	7,323
Income taxes	4,693	2,898	2,800	2,818	2,469	1,797	3,187	7,697	3,691
Income from continuing operations before minority interest	6,225	3,611	5,427	2,884	4,227	2,776	3,078	9,733	3,632
Minority interest	—	(1,625)	(2,483)	—	7	—	(414)	(1,425)	(552)
Income from continuing operations	$ 6,225	$ 1,986	$ 2,944	$ 2,884	$ 4,234	$ 2,776	$ 2,664	$ 8,308	$ 3,080
Income per share from continuing operations	$ —	$ .26	$ .39	$ .38	$ .56	$ .37	$ .36	$ 1.11	$ .41
Weighted average number of shares	—	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500

	December 31, 1986(1) Predecessor Company	1987	1988	1989	1990	June 30, 1991 Actual	June 30, 1991 As Adjusted(5)
				(In thousands)			
Balance Sheet Data:							
Fixed assets	$65,271	$110,022	$109,140	$ 97,152	$136,697	$175,505	$175,505
Total assets	78,044	126,863	135,270	146,306	193,620	240,036	253,453
Short-term debt (including current portion of long-term debt)	—	5,610	5,358	15,429	18,433	18,021	6,601
Long-term debt, net	—	90,173	86,036	85,565	128,895	166,594	133,676
Stockholders' equity	50,089	2,640	5,584	8,923	7,019	6,794	64,699

(1) On June 24, 1987, ATN-VI, then a 55%-owned subsidiary of the Company, acquired Vitelco from a subsidiary of ITT. The Company did not engage in operations prior to such date. Accordingly, the results of operations for the year ended December 31, 1987 are the pro forma combined results for the Company, reflecting the acquisition of Vitelco as if it had occurred on January 1, 1987, and the results of operations for the year ended December 31, 1986 are for Vitelco prior to the acquisition.

(2) On January 13, 1989, the Company purchased the 45% minority interest in ATN-VI with the result that ATN-VI became a wholly-owned subsidiary of the Company.

(3) The results of operations for the years ended December 31, 1989 and 1990 and for the six-month period ended June 30, 1990 were affected by Hurricane Hugo. Income for these periods includes insurance proceeds for business interruption resulting from Hurricane Hugo, which the Company has recognized but not received, in the amounts of $3,880,000, $1,158,000 and $1,158,000 for the respective periods. See "Business—Litigation."

(4) On January 28, 1991, the Company purchased 80% of GT&T. The pro forma results reflect the acquisition of GT&T as if it had occurred on January 1, 1990, but does not reflect this Offering or the application of the proceeds of this Offering. As a result of repaying certain long-term debt from the net proceeds of this Offering, the Company will recognize a non-recurring expense of approximately $1.8 million, after tax, from the write-off of unamortized debt issuance costs. This write-off will occur upon the completion of this Offering.

(5) Adjusted to reflect the sale of 3,750,000 shares of Common Stock by the Company and the application of the proceeds therefrom, assuming a price of $17.50 per share, with net proceeds of approximately $59.7 million. See "Use of Proceeds" and "Capitalization."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

The Company's revenues and income from continuing operations are derived principally from the operations of its telephone subsidiaries, Vitelco and GT&T. Vitelco derives most of its revenues from local telephone and long-distance access services. GT&T, whose results of operations since February 1, 1991 have been included in the Company's financial statements, derives almost all of its revenues (98% for the period February 1, 1991 through June 30, 1991) from international telephone services. Other operations in the Company's Consolidated Statements of Operations include Vitelcom Cellular, which provides cellular telephone service in the U.S. Virgin Islands, MCN, which provides cellular telephone service to the maritime industries, CALLS, which resells long-distance services in the U.S. Virgin Islands at discount rates, and Vitelcom, which supplies customer premises equipment in the U.S. Virgin Islands.

The principal components of operating expenses for the Company's telephone operations are plant specific operations expenses, plant non-specific operations expenses, customer operations expenses, corporate operations expenses, long-distance expenses and taxes other than income taxes. These categories are consistent with FCC accounting practices as contained in Part 32 of the United States Code of Federal Regulations. Plant specific operations expenses relate to support and maintenance of telephone plant and equipment and include vehicle expense, land and building expense, central office switching expense, radio and network transmission expense and cable and wire expense. Plant non-specific operations expenses consist of depreciation charges for telephone plant and equipment and expenses related to telephone plant and network administration, engineering, power, materials and supplies provisioning and plant and network testing. Customer operations expenses relate to marketing, providing operator services for call completion and directory assistance and establishing and servicing customer accounts. Corporate operations expenses include Vitelco's and GT&T's expenses for executive management and administration, corporate planning, accounting and finance, external relations, personnel, labor relations, data processing, legal services, procurement and general insurance. International long-distance expenses consist solely of charges from international carriers for outbound international calls from Guyana and collect calls into Guyana. Taxes other than income includes gross receipts tax, property taxes and other miscellaneous taxes.

Results of Operations

Six-Month Periods Ended June 30, 1991 and 1990

The acquisition of GT&T on January 28, 1991 has had a significant impact on the Company's financial results. The acquisition makes a comparison between the six months ended June 30, 1991 and June 30, 1990 difficult since GT&T results are partially included in the 1991 period but are not included at all in the 1990 period. Therefore, the presentation below discusses results at Vitelco and GT&T individually in order to provide more meaningful information about the respective periods.

Vitelco. The table below sets forth revenues and expense information for Vitelco for the six months ended June 30, 1990 and June 30, 1991:

	For the Six Months Ended June 30,	
	1990	1991
	(In thousands)	
Local exchange service	$ 7,451	$10,765
Access charges	7,730	8,132
Universal Service Fund	1,595	1,554
Billing and other revenues	3,832	4,675
Directory advertising	1,469	1,669
Business interruption claim	1,060	—
Total revenues	23,137	26,795
Total expenses	14,200	17,425
Income from operations(1)	$ 8,937	$ 9,370

(1) Income from operations is before interest, income taxes and intercompany advisory fees.

Vitelco telephone operations revenues for the first six months of 1991 increased $3.7 million (15.8%) from the first six months of 1990. The largest component of the growth was an increase in local exchange revenues which increased $3.3 million (44.5%) in the 1991 period from the 1990 period. This increase in local exchange revenues was due principally to the fact that, in the 1990 period, Vitelco's service was not substantially restored from the effects of Hurricane Hugo until April of that year. Due principally to the effects of Hurricane Hugo, access charges increased by $402,000 (5.2%) and billing and other revenues increased by $854,000 (22.3%). Other revenue components include revenues generated from the Universal Service Fund (the "USF"), an FCC-mandated pool funded by long-distance carriers intended to assist local exchange carriers with higher than average non-traffic sensitive costs (such as Vitelco), which were essentially unchanged between the two periods, and directory advertising revenues, which increased $200,000 (13.6%) from the 1990 period to the 1991 period. The Company's revenues for the 1990 period also include $1.1 million of business interruption insurance claims which have been recognized but not received. See "Business—Litigation."

Management expects billing and other revenues to decline after 1991 due to the termination of the contract with AT&T to provide switching and operator services. See "Business—Vitelco—Other Services." This contract generated revenues of $4.4 million in 1990 and resulted in a pre-tax loss of $20,000. Accordingly, the discontinuance of this contract will not have any adverse effect on the Company's results of operations.

Vitelco telephone operations expenses for the first six months of 1991 increased $3.2 million (22.7%) from the first six months of 1990. This increase consisted principally of a return to normal levels of maintenance expense in 1991; during most of the first six months of 1990, Vitelco was engaged in restoring its facilities following damage caused by Hurricane Hugo, and ordinary maintenance activities were significantly curtailed. Management believes that Vitelco's extensive installation of underground cable following Hurricane Hugo, primarily in St. Croix, will result in substantial maintenance and repair cost savings over the life of the cable, which will be reflected principally in lower plant specific expense. Depreciation was also higher in the 1991 period as a result of the substantial increase in Vitelco's net telephone plant following the restoration of plant required by damage resulting from Hurricane Hugo.

Vitelco's income from operations before interest, income taxes and intercompany advisory fees increased $450,000 (5.0%) in the 1991 period from the 1990 period.

GT&T. Reliable quarterly records of the operations of GT&T's predecessor, Guyana Telecommunication Corporation ("GTC"), prior to the acquisition, are not available. Consequently, it is impossible to compare GT&T's financial results for the six months ending June 30, 1991 with its predecessor's results for the comparable period in the prior year. The results of operations for GT&T for the five months ended June 30, 1991 are set forth below:

	For the Five Months Ended June 30, 1991 (In thousands)
Revenues:	
International long-distance (inbound)	$7,242
International long-distance (outbound)	1,077
Local and other revenues	147
Total revenues	8,466
Expenses:	
International long-distance expenses	3,010
Operating expenses	1,665
Total expenses	4,675
Income from operations(1)	$3,791

(1) Income from operations is before interest, income taxes and intercompany advisory fees.

Over 98% of GT&T's revenues in this period were from international traffic. In the period since the Company's acquisition of GT&T, the Company has made significant capital improvements, which began to affect revenues from international traffic and financial results in July, and are expected to continue to affect future results. The table below sets forth monthly financial information with respect to GT&T's revenues from international traffic and international long-distance expenses (*i.e.*, payments to foreign carriers) from February 1, 1991 through August 31, 1991:

	February(1)	March	April	May(1)	June	July	August
			(In thousands)				
International revenues:							
International long-distance (inbound)	$1,731	$1,521	$1,472	$1,277	$1,241	$1,546	$2,054
International long-distance (outbound)	340	179	167	181	210	239	302
Total international revenues	2,071	1,700	1,639	1,458	1,451	1,785	2,356
International long-distance expenses	544	472	544	834	616	625	585

(1) The data for February and May included certain unusual settlements of accounts. For a discussion of these settlements, see the following text.

During the period from February through May, GT&T did not complete any major operational changes that had a significant impact on its results. GT&T's international revenues were higher in February than in the following five months due to a settlement of accounts with AT&T in February from international calls made in prior months. In addition, international long-distance expenses were higher and international inbound revenues were lower in May due to another settlement of accounts with Teleglobe (the long-distance company of Canada) also relating to several prior months.

In June 1991, GT&T began to place in service certain capital improvements. See "Business—Guyana—Expansion Program." On June 2, 1991, GT&T placed in service a new digital switch which had a number of start-up problems which had a negative impact on international revenues in June, but is expected substantially to improve international service.

On June 28, 1991, GT&T significantly expanded its capacity for international traffic by increasing the number of circuits in operation between Guyana and the United States from 53 to 146. This expansion is particularly important for the Company since incoming international traffic is the primary source of revenues and earnings for GT&T, and GT&T and its predecessor had regularly experienced periods in which all of its circuits with the United States, Canada and the United Kingdom were engaged. Principally as a result of the addition of these new circuits, in August GT&T's revenues increased to $2.4 million and its income from operations before interest, income taxes and intercompany advisory fees increased to $1.6 million. These results represent increases of approximately 40% and 100%, respectively, over the corresponding average monthly results for the five-month period ended June 30, 1991. While the Company expects GT&T to show continued gains in revenues and operating profit as GT&T makes further capital improvements and proceeds with the Expansion Plan, the Company does not expect future increases in revenues and operating income from month to month, on a percentage basis, to match the dramatic percentage increases reported for August 1991 as compared to the average monthly results for the five months ended June 30, 1991.

On August 28, 1991, GT&T completed its second major capacity expansion by increasing the number of circuits in operation between Guyana and the United Kingdom from 10 to 25. GT&T also anticipates expanding the number of circuits in operation between Guyana and Canada prior to the end of 1991. Recent increases in the levels of traffic experienced by GT&T have occurred without any substantial change in the number of access lines operating within Guyana. A significant increase in the number of lines in service is expected prior to the end of 1991 as GT&T seeks to fulfill its obligations under the Expansion Plan to add 5,000 new access lines and to reduce by one-half the number of lines out of service at the date of the acquisition of GT&T, by January 28, 1992.

In February 1991, the Government of Guyana devalued its currency from G$45.00 per U.S.$1.00 to G$101.75 per U.S.$1.00. Since the February devaluation, the Guyanese dollar has traded in a range of G$101 per U.S.$1.00 to G$128 per U.S.$1.00 and at September 24, 1991 was trading at G$119 per U.S.$1.00. This devaluation had a significant impact on GT&T's international long-distance revenues from outbound traffic and local revenues (as converted into U.S. dollars), all of which are payments made by Guyanese subscribers in Guyanese dollars. In March 1991, GT&T, pursuant to terms of the License, applied for an increase to offset the impact of the devaluation. A hearing on such rate increase is scheduled for October 9, 1991. The devaluation, without any offsetting rate increase during the February to August period, resulted in a reduction in GT&T revenues and income from operations of approximately $2.6 million. See "Business—Regulation—Guyana."

Other Operations. The Company's income from other operations declined by $526,000 in the 1991 period. This decrease is principally attributable to a decrease of $600,000 in the earnings of Vitelcom Cellular, as a result of a decline in usage of cellular phones following substantial restoration of traditional telephone service in April 1990 after Hurricane Hugo, and $234,000 of operating losses of MCN, which was not in operation in the first six months of 1990.

Non-Operational Items. Non-operating revenues and expenses, which includes interest expenses and interest income, resulted in a net charge against the Company's earnings of $7.2 million for the six months ended June 30, 1991, as compared to $5.2 million for the six months ended June 30, 1990 (an increase of 38.5%). Approximately $1.0 million of this increase consisted of interest and other expenses related to the GT&T acquisition, with the balance arising primarily from the increased levels of the Company's indebtedness during the 1991 period, the proceeds of which were used to fund the Company's Hurricane Hugo restoration efforts.

The minority interest reflected in the 1991 period primarily represents the Government of Guyana's 20% interest in GT&T.

The Company's effective tax rate on income from continuing operations was 50.9% for the 1991 period, as compared to 39.3% for the 1990 period. The higher effective tax rate in 1991 reflects a 45% income tax rate in Guyana and the fact that the Company, which does not consolidate its results with any of its operating subsidiaries for tax purposes, had a net loss due to the interest expense associated with the GT&T Acquisition Loan, which could not be offset by other income. Subsequent to this Offering and the repayment in full of the GT&T Acquisition Loan from the proceeds of this Offering, the Company expects to generate positive income from advisory fees and will be able to offset this income by the aforementioned net operating losses. In addition, the President of Guyana has announced that the Government proposes to introduce legislation, effective January 1, 1992, to reduce the income tax rate in Guyana to 35%.

Years Ended December 31, 1990 and 1989

Revenues from telephone operations (excluding business interruption claim accruals) increased by $4.0 million, or 8.7% in 1990 from 1989. The principal components of the revenue growth were a $2.6 million (15.8%) increase in local exchange service revenues and a $947,000 (13.5%) increase in billing and other revenues. These items increased in part due to the growth of Vitelco's access lines in the latter half of 1990, but principally as a result of Hurricane Hugo. Although Hurricane Hugo affected Vitelco's operations for approximately three and one-half months in each fiscal year, its impact on Vitelco's operations in the last quarter of 1989 was much more dramatic than it was in the first quarter of 1990, when the restoration work was well underway.

Access charges decreased $171,000 (1.0%) in 1990 from 1989. However, both years included adjustments for access charge settlements related to prior years ("true-ups"). These true-ups, which no longer occur in material amounts since, in 1989, the Company began filing its own access charge tariff for traffic sensitive costs instead of participating in the National Exchange Carrier Association, Inc. ("NECA") tariff for these costs, are recorded by the Company in accordance with standard industry practices, in the year in which the final settlement occurs. After adjusting for true-ups, access charges increased by $1.7 million (10.7%) in 1990 from 1989.

USF revenues were substantially unchanged between the two periods, while directory advertising, which was not significantly affected by Hurricane Hugo, increased by $366,000 (15.7%). Revenues from telephone operations also included $1.1 million in 1990 and $3.6 million in 1989 of business interruption insurance claims which have been recognized but not received. See "Business—Litigation."

Telephone operations expenses increased $2.0 million (6.3%) in 1990, principally as a result of a substantial increase in maintenance expenses in 1990 which more than offset a significant decline in depreciation charges. Maintenance expenses increased in 1990 as a result of work deferred, because of Hurricane Hugo restoration efforts, to the last eight months of 1990. Depreciation decreased in 1990 principally because of the completion of the depreciation of certain Vitelco assets in 1989. Corporate operations expenses increased $2.2 million in 1990 over 1989, due primarily to a $500,000 increase in insurance expenses and a $1.1 million increase in professional expenses, principally for services related to regulatory matters.

The Company's income from other operations increased by $590,000 in 1990. Vitelcom Cellular, which began operations in the last quarter of 1989, contributed $1.1 million in 1990, compared to $100,000 in 1989, and offset losses of CALLS and MCN aggregating approximately $450,000 in 1990.

Years Ended December 31, 1989 and 1988

Revenues from telephone operations (excluding business interruption claim accruals) decreased by $2.6 million (5.3%) in 1989 from 1988. The decline was principally attributable to the disruption of operations caused by Hurricane Hugo. Further, after adjusting for true-ups, revenues decreased from $47.8 million in 1988 to $44.5 million in 1989, a decrease of $3.3 million (6.9%). The true-ups related principally to access charges and billing and other services. In 1989, revenues from telephone operations included $3.6 million of business interruption insurance claims which have been recognized but not received. See "Business—Litigation."

Telephone operations expenses increased $2.2 million (7.2%) in 1989. This was due principally to a $2.7 million increase in depreciation which more than offset a $1.2 million decrease in plant specific expenses arising principally from the curtailment of maintenance operations in the last quarter of 1989 as a result of Hurricane Hugo. Depreciation increased in 1989 principally because of the Company's adoption of the equal life method of depreciation of its telephone plant and $500,000 of extra depreciation of certain assets as a result of a settlement agreement entered into with the PSC on April 19, 1989.

Liquidity and Capital Resources

Prior to Hurricane Hugo, the Company relied primarily upon funds generated from its telephone operations to meet its liquidity needs. The Company's liquidity and capital resources have been strained as a result of rebuilding after Hurricane Hugo, the inability of the Company to obtain full payment from its insurers with respect to its losses from Hurricane Hugo and the capitalization and operations of Puerto Rico Telecom Corporation ("PRT"), a wholly-owned subsidiary of the Company, which has been engaged in reselling long-distance telecommunications service in Puerto Rico and the operations of which are being discontinued.

Hurricane Hugo caused Vitelco to lose in excess of $10 million of revenues and to make capital expenditures of $60.1 million in its restoration efforts. This extraordinary capital requirement was funded by (i) approximately $6 million in cash reserves which the Company had on hand at the date of the hurricane, (ii) $12.5 million in property insurance proceeds received to date by the Company, (iii) $47.7 million of long-term financing provided by the REA at a fixed rate of interest of 5.0% per annum and (iv) utilization of the Company's short-term lines of credit. The Company has claimed an additional amount of approximately $32 million from its insurer and insurance broker (in addition to the $12.5 million it has received). See "Business—Litigation."

The Company's current casualty and business interruption insurance policy is scheduled to expire in June 1992, and the insurer has indicated that it is discontinuing activities in the Caribbean area and will not renew the policy. The Company believes that coverage will be available, although there can be no assurance that it will. See "Business—Properties."

As of June 30, 1991, the Company had invested in, or loaned to, PRT for its Puerto Rican long-distance telephone business, which business has incurred substantial losses and is being discontinued, an aggregate of $10.2 million. Due to the combined requirements of Hurricane Hugo and PRT, the Company has been unable to repay certain of its short-term lines of credit for the applicable periods as required by the terms of such credit lines and has been in default of certain financial covenants in its long-term debt. On September 26, 1991, the Company borrowed $6 million on a short-term basis to cure certain of these defaults, and the Company obtained waivers of the remaining defaults from the applicable lenders.

On January 28, 1991, the Company completed the acquisition of its 80% interest in GT&T, and borrowed $18.2 million from NTIF to fund the $16.5 million purchase price for the investment in GT&T and certain closing expenditures. Other acquisition-related expenditures were funded from the Company's internally generated funds.

For the last six months of 1991 and the period 1992 through 1994, the Company estimates that it will have approximately $90 million in capital expenditures (including approximately $40 million of GT&T expenditures for the Expansion Plan). At June 30, 1991, the Company had unused financing commitments in the amount of $42.1 million, including $9.1 million of REA financing for Vitelco and $33 million of NTIF financing for GT&T. The Company intends to seek additional REA financing for Vitelco for such portion of Vitelco's expenditures as is eligible for REA financing (approximately 70%), and to fund the balance of its capital expenditures from other borrowings or from cash generated from its operations.

GT&T's Expansion Plan is highly dependent upon the ability of GT&T to purchase equipment with U.S. dollars. GT&T has financing from NTIF for approximately 80% of its anticipated expenditures for the Expansion Plan, which is denominated and payable in U.S. dollars. A portion of GT&T's taxes in Guyana is also payable in U.S. dollars or other hard currencies. The Company anticipates that GT&T's foreign currency earnings will increase substantially due to increased revenues resulting from the Expansion Plan, enabling GT&T to service this debt and pay its hard currency tax obligations and to purchase any additional required equipment without financing or, if necessary, to finance such purchases and service such debt. There are currently no Guyanese legal restrictions on the conversion of Guyanese currency into U.S. dollars or on the expatriation of foreign currency from Guyana. Management does not believe it will be necessary for GT&T to convert Guyanese currency to meet its obligations.

The Company believes that, following the completion of this Offering, the Company will have adequate liquidity and capital resources for its operations and its capital expenditure needs.

Impact of Devaluation and Inflation

The Company's results of telephone operations in Guyana may be affected by changes in currency exchange rates and inflation. The official currency in Guyana is the Guyanese dollar which has been subject to significant devaluation relative to the U.S. dollar. Since the majority of the Company's revenues and expenditures in Guyana are transacted in U.S. dollars, the financial results of such transactions are not affected by devaluation of the Guyanese dollar. With respect to transactions conducted in Guyanese dollars, the Company is entitled under the terms of the License to offset the impact of a major devaluation by applying to the PUC for an increase in its telephone rates; GT&T filed an application to so increase its rates in March 1991, and the PUC has scheduled a hearing on GT&T's application for October 9, 1991.

The effect of inflation on the Company's financial results of telephone operations in the U.S. Virgin Islands has not been significant in recent years. The effect of inflation on the cost of providing telephone service in the U.S. Virgin Islands has generally been offset (without any increase in local subscribers' rates) by increased revenues resulting from growth in the number of subscribers and regulatory cost recovery practices in determining access revenues.

BUSINESS

The Company is a telecommunications holding company which has two principal subsidiaries, Vitelco and GT&T. Vitelco provides subscribers with local telephone service in the U.S. Virgin Islands and with access to long-distance companies for interstate and international telephone service and provides those companies with access to its local network. GT&T provides local service and domestic long-distance telecommunications service within the Co-operative Republic of Guyana and international telephone service between Guyana and foreign points.

The Company is also engaged in other telecommunications services, principally in the Caribbean area, including providing cellular telephone service in the U.S. Virgin Islands to marine and land-based subscribers and reselling cellular telephone service to merchant and cruise ships along the east and west coasts of North and South America and in the Far East, reselling long-distance service in the U.S. Virgin Islands and selling and leasing telecommunications equipment in the U.S. Virgin Islands.

The Company from time to time evaluates opportunities for establishing or acquiring other telecommunications businesses, principally in the Caribbean area and Latin America, and may make investments in such businesses in the future. In recent years, many of the opportunities to acquire small or medium-sized telecommunications businesses have arisen as countries have sought to privatize their government-owned telephone systems. The Company is not presently engaged in active negotiations with respect to any acquisitions.

Vitelco

General. Vitelco is the exclusive provider of local telephone service in the U.S. Virgin Islands. The Company, through ATN-VI, acquired Vitelco from a subsidiary of ITT for $87.4 million on June 24, 1987. ITT had acquired Vitelco from the Government of the U.S. Virgin Islands in 1959. In 1990, approximately 62% of the Company's consolidated pro forma revenues was derived from the operations of Vitelco.

Local Service. In 1990, based upon access line data provided by the USTA, Vitelco was the 30th largest local telephone company of approximately 1,300 local telephone companies in the United States. As of June 30, 1991, Vitelco had 49,205 access lines in service. Based upon data provided by the USTA, during the last ten years, Vitelco has been one of the fastest growing local telephone companies in the United States, with average annual growth in access lines exceeding 6%, compared to the national average annual growth rate of 2.4%. Approximately 41% of Vitelco's total revenues in 1990 (excluding business interruption revenues) was derived from provision of local service.

The following table sets forth certain data with respect to Vitelco's operations:

	Access Lines In Service(1)(2)			Annualized Percent Increase	Basic Monthly Rate for Local Service	
	Residential	Business	Total		Residential	Business
December 31, 1980	—	—	26,276	—	$22.55	$53.70
December 31, 1981	—	—	28,142	7.10%	22.55	53.70
December 31, 1982	—	—	30,534	8.50	22.55	53.70
December 31, 1983	—	—	34,882	14.24	20.55	51.70
December 31, 1984	—	—	37,227	6.72	21.50	56.35
December 31, 1985	27,149	10,303	37,452(2)	0.60(2)	22.30	59.85
December 31, 1986	28,850	10,777	39,627	5.81	22.30	59.85
December 31, 1987	30,158	11,308	41,466	4.64	21.90	58.45
December 31, 1988	31,983	12,334	44,317	6.88	20.85	55.80
December 31, 1989	N/A(3)	N/A(3)	21,156(3)	— (3)	20.85	55.80
December 31, 1990	32,442	14,737	47,719	— (3)	20.85	55.80
June 30, 1991	33,936	15,269	49,205	8.77(4)	20.85	55.80

(1) Includes access lines allocated solely for the use of Vitelco and its employees, the number of which has ranged from 861 to 1,089 during the years set forth in the table.

(2) In 1985, Vitelco conducted a physical line audit in connection with its conversion from analog technology to digital technology which permits more accurate records to be kept with respect to the number of access lines in service.

(3) December 31, 1989 falls in the middle of Vitelco's period of restoration after the damage caused by Hurricane Hugo in September 1989, and, accordingly, the number of access lines in service at the end of 1989 is an estimate. Immediately prior to the hurricane, Vitelco had 46,968 access lines in service (33,045 residential lines and 13,923 business lines). The Company estimates that immediately after the hurricane fewer than 12,000 lines were operational. By June of 1990, the number of access lines in service was 44,251 (30,332 residential lines and 13,919 business lines).

(4) Compound annual growth rate from December 31, 1990.

The Company believes that Vitelco's telephone business is essentially non-cyclical, and (except for its growth in access lines) is not materially reduced in times of recession. For the six months ended June 30, 1991, Vitelco's growth rate in access lines, on a compound annual growth rate basis, was 8.77%. The Company believes that future growth in access lines will occur primarily as a result of construction of new residential and commercial properties in the U.S. Virgin Islands, although growth should also occur from an increase in the number of households which have telephones and an increase in lines per subscriber as facsimile machines, computer data communication and other technological innovations become more widespread. There can be no assurance that growth in access lines will continue at the historical rate. See "The U.S. Virgin Islands."

Vitelco currently has approximately 49 access lines in service for each 100 residents of the U.S. Virgin Islands, and 87% of households in the U.S. Virgin Islands have telephones. Based upon data provided by the USTA and the United States Department of Commerce Bureau of the Census, the national average for the United States was approximately 55 lines for each 100 inhabitants in 1990, and, based upon data released by the FCC in September 1991, 93.3% of households in the United States have telephones.

As of June 30, 1991, approximately 69% of Vitelco's 49,205 access lines were residential lines, and the remainder were business lines. Vitelco's current monthly charge per access line, which includes unlimited calls between points in St. Croix, St. John and St. Thomas and is regulated by the PSC, is $20.85 for residential customers and $55.80 for business customers. In June 1987, when the Company acquired Vitelco, Vitelco's residential rate was $21.90, and its business rate was $58.45. A proceeding which may result in either a substantial increase or decrease in these rates is pending before the PSC. See "Business—Regulation—U.S. Virgin Islands."

Access for Long-Distance Services. In addition to providing local service, Vitelco provides subscribers with access to long-distance companies for interstate and international services and provides those companies with access to its local network and, thereby, to local subscribers. Vitelco is compensated for providing this access by long-distance carriers and by its subscribers in accordance with tariffs, which are subject to FCC review. See "Business—Regulation—U.S. Virgin Islands." The principal long-distance carrier in the U.S. Virgin Islands is AT&T of the Virgin Islands, Inc., a local subsidiary of AT&T ("AT&T-VI"). Approximately 34% of Vitelco's total revenues in 1990 (excluding business interruption claim accruals) was derived from access charges.

Other Services. In 1990, Vitelco received approximately 23% of its revenues (excluding business interruption claim accruals) from providing billing, collection, switching and operator services for AT&T-VI and from yellow-pages directory advertising. Vitelco's switching and operator services contract with AT&T-VI expired on September 15, 1991. The termination of the switching and operator service contract with AT&T-VI will not have a material effect on Vitelco's income. Vitelco's billing and collection contract with AT&T-VI expires on December 31, 1992; based upon AT&T's customary practices, the Company believes that this contract will be renegotiated or extended.

Physical Plant. Vitelco operates a modern, fully digital telecommunications network in the U.S. Virgin Islands. Vitelco initiated a modernization program with the installation of its first fiber optic cable in 1981 and its first digital switch in 1982. Upon the completion of the program in 1987, Vitelco's network became the first multi-switch, all digital telephone system in the Caribbean. Modern digital systems, which are more cost effective and permit higher quality transmissions than analog systems, permit speech, text and computer data to be transmitted simultaneously and on the same network.

Vitelco's policy is to upgrade plant and equipment, as necessary or appropriate, pursuant to an ongoing construction and development program. The program allows Vitelco to increase revenues and reduce costs, while enhancing service, by taking advantage of technological developments in the telecommunications industry, such as digital switching and fiber optics.

On September 17, 1989, a substantial portion of Vitelco's outside plant on St. Croix and a significant portion of its outside plant on St. Thomas and St. John were destroyed by Hurricane Hugo, which was the first hurricane to inflict substantial damage in the U.S. Virgin Islands since 1928. While the hurricane did relatively little damage to Vitelco's switching equipment, it resulted in a decrease in the number of access lines in service from 46,968 to fewer than 12,000. Within seven months following the hurricane, Vitelco had substantially completed the restoration of the damaged and destroyed plant. On St. Croix, Vitelco replaced a substantial portion of its aerial cable, including all cables connecting its remote switches on St. Croix, with approximately 125 miles of underground cables, which have greater capacity than the line in place prior to the hurricane. On St. Thomas, where the hurricane damage was less substantial, Vitelco replaced all damaged outside plant, and, in addition, upgraded its network by installing an underground fiber optic cable to connect its microwave facility with its main switch. Underground cable provides greater capacity and reliability and reduces the destructive impact of the elements, including the impact of hurricanes. The total cost to Vitelco for replacement of plant due to Hurricane Hugo was approximately $60.1 million. See "Business—Properties," "Business—Litigation," "The U.S. Virgin Islands," "Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Resources and Liquidity" and Note D to the Company's Consolidated Financial Statements.

Pursuant to a settlement agreement entered into with the PSC on April 19, 1989 (the "Settlement Agreement"), the Company agreed to expend a minimum of $40 million (approximately $8 million annually) on construction and development for Vitelco during the five-year period from 1989 to 1993. Although, as a result of Hurricane Hugo, Vitelco has expended in excess of $60 million on new plant construction since April 1989, under the Settlement Agreement, Vitelco must provide justification to the PSC if, in any year during the five-year period, it expects expenditures to be less than $8 million. See "Business—Regulation—U.S. Virgin Islands."

GT&T

General. GT&T supplies all telecommunications service in Guyana, a country located on the northeast coast of South America. The Company acquired 80% of the capital stock of GT&T from the Government of Guyana for $16.5 million on January 28, 1991 (the "GT&T Acquisition"). GT&T was a newly-organized company which had acquired substantially all of the assets and certain liabilities of GTC, a corporation wholly owned by the Government of Guyana. GTC had been the exclusive provider of telecommunications services in Guyana for more than 20 years. In 1990, approximately 28% of the Company's consolidated pro forma revenues was derived from the operations of GT&T.

International Traffic. GT&T's revenues and earnings are highly dependent upon international long-distance calls, particularly calls originating outside of Guyana and collect calls from Guyana to foreign points. In June 1991, GT&T significantly expanded its capacity for international traffic by adding 120 new digital circuits. See "Business—GT&T—Expansion Program."

The following table sets forth data with respect to GT&T's (and GTC's) international traffic for the past three years and for the six months ended June 30, 1991:

	Year Ended December 31,						Six Months Ended June 30,	
	1988		1989		1990		1991	
	(Millions of billed minutes and percentages of total amounts)							
International long-distance calls originating or billed outside of Guyana ("inbound" traffic):								
United States	9.71	57.49%	13.07	59.46%	14.21	56.79%	7.68	57.40%
Canada	1.13	6.69	1.59	7.23	2.63	10.51	1.03	7.70
United Kingdom	0.92	5.45	1.01	4.60	.79	3.16	.60	4.48
Other	2.06	12.20	2.25	10.24	2.70	10.79	.66	4.94
	13.82	81.83%	17.92	81.53%	20.33	81.25%	9.97	74.52%
International long-distance calls originating or billed inside of Guyana ("outbound" traffic):								
United States	1.94	11.49%	2.61	11.87%	2.92	11.67%	1.88	14.05%
Canada	.23	1.36	.32	1.46	.47	1.88	.20	1.49
United Kingdom	.32	1.89	.35	1.59	.28	1.12	.44	3.29
Other	.58	3.43	.78	3.55	1.02	4.08	.89	6.65
	3.07	18.17%	4.06	18.47%	4.69	18.75%	3.41	25.48%
Total minutes	16.89	100.00%	21.98	100.00%	25.02	100.00%	13.38	100.00%

The total amount of billed minutes of long-distance traffic into and out of Guyana has increased in each of the last three years from 16.89 million billed minutes in 1988 to 25.02 million billed minutes in 1990. In 1990 and the first six months of 1991, approximately 95% and 98%, respectively, of the revenues of GTC and GT&T were from international traffic, principally traffic with the United States, Canada and the United Kingdom, and approximately 77% and 82%, respectively, of these revenues were from inbound traffic.

The volume of calls into Guyana (including collect calls from Guyana) greatly exceeds the volume of calls from Guyana to other countries (including collect calls into Guyana). Management of GT&T believes that this disparity stems from the fact that the vast majority of GT&T's international traffic consists of personal calls between Guyanese expatriates and their friends and families in Guyana and the fact that the average income of most Guyanese residents is substantially lower than that of their Guyanese expatriate friends or relatives in the United States, Canada or the United Kingdom. See "The Co-operative Republic of Guyana—Population and Income." In 1991, the ratio of inbound to outbound traffic has declined due, in the Company's belief, to the devaluation of the Guyanese dollar and the availability of international direct dialing. GT&T has taken a number of steps to maintain this ratio to the extent possible. If and when GT&T obtains an increase in its rates for outbound traffic to reflect the devaluation which occurred in the Guyanese dollar in 1991, the Company believes that this ratio is likely to more closely approximate its pre-1991 level. See "Business—Regulation—Guyana—PUC and Telecommunications Law."

GT&T's revenues from international long-distance service principally reflect payments pursuant to bilateral agreements between GT&T and foreign telecommunications administrations or private carriers, covering virtually all international calls into or out of Guyana. These agreements govern the rates of payment by GT&T to the foreign carriers for the use of their facilities in connecting international calls billed in Guyana, and by the foreign carriers to GT&T for the use of its facilities in connecting international calls billed abroad. The rates of payment under such agreements are negotiated with each foreign carrier and are known as "accounting rates." Settlements among carriers are normally made monthly on a net basis. The amounts payable to GT&T by foreign carriers for calls originating (or, in the case of collect calls, billed) outside Guyana greatly exceed the amounts payable by GT&T for calls originating (or billed) in Guyana, and GT&T consistently receives substantial monthly settlement payments in hard currencies (principally United States dollars) from such foreign carriers. GT&T also collects charges from its customers in Guyana for outbound traffic. These charges are based on the duration and distance of the calls and the use of services such as operator assistance.

The substantial disparity between inbound and outbound international traffic contributes significantly to GT&T's earnings. The revenues per minute received by GT&T for use of its facilities for inbound calls are not offset by any payment requirements to other carriers and significantly exceed the net revenues per minute of outbound calls from its subscribers after deducting payments due the foreign carrier for use of the foreign carrier's facilities for such outbound calls. Indeed, as a result of the devaluation of Guyanese currency in February 1991, during most of 1991, amounts payable to foreign carriers by GT&T have exceeded amounts charged by GT&T to its subscribers for outbound telephone calls billed in Guyana. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Six-Month Periods Ended June 30, 1991 and 1990." GT&T is currently applying for an increase in its international as well as its local rates. See "Business—Regulation—Guyana—PUC Law and Telecommunications Law." There can be no assurance that, as GT&T expands and improves its local telephone facilities and changes occur in the Guyanese economy, inbound international traffic will continue to be as significant a part of GT&T's total revenues. Any decrease in the net margin of inbound over outbound traffic may have an adverse effect on GT&T's earnings. In addition, the FCC is performing a review of international accounting rates, and there can be no assurance that the FCC will not adopt regulations that would result in reductions in the accounting rates charged by GT&T under its operating agreements with U.S. carriers. See "Business—Regulation—Guyana."

Domestic Service. At June 30, 1991, GT&T had approximately 20,000 access lines in existence, of which in excess of 4,000 lines were not operational. The number of access lines has remained relatively stable for more than 15 years. This number of access lines represents approximately 2.6 lines in service per 100 inhabitants. Of all lines in service, 75% are in the area of Georgetown (the nation's capital), and 90% are in the four largest urban areas, consisting of Georgetown, Linden, New Amsterdam and Beterverwagting. Ninety percent of Guyana's population lives on the coastal plain where Georgetown is located. Most rural areas do not have telephone service. Pursuant to the Expansion Plan, GT&T is required to add an additional 20,000 access lines (5,000 by January 28, 1992, 7,000 by January 28, 1993 and 8,000 by January 28, 1994). See "Business—GT&T—Expansion Program."

GT&T's revenues from local telephone service, which are not significant (accounting for only approximately 4% of GTC's total revenues in 1990 and approximately 2% in the six months ended June 30, 1991), consist of installation charges for new lines, monthly line rental charges, monthly measured service charges based on the number of calls and other charges for maintenance and other customer services. For each category of revenues, rates differ for residential and commercial customers. Residential and commercial customers have contributed approximately equally to GT&T's revenues from local service. GT&T's current monthly charge per access line is approximately $.30 for residential customers and approximately $.71 for business customers, and the average monthly bill for residential and business service (excluding charges for international calls) is $.58 and $1.36, respectively. See "Business—Regulation—Guyana."

Expansion Program. At the time of the GT&T Acquisition, GT&T's telephone system consisted of an antiquated electromechanical and semi-electronic analog system with approximately 20,000 access lines (of which at that time and throughout 1990 in excess of 4,000 lines were non-operational). GT&T's international traffic was limited by (i) a total of 75 international circuits for traffic beyond the Caribbean area; (ii) an analog system and a poorly maintained outside plant which permitted a completion rate of only 15-20% of inbound international calls; and (iii) a low number of access lines relative to the population size. In June 1991, GT&T implemented two major capital improvements that are expected to increase significantly GT&T's international traffic capacity and its quality of service. The first was the installation of GT&T's first digital switch (a DMS-100/200/300 switch manufactured and installed by Northern Telecom, Inc.), which had a number of start-up problems but is expected to improve substantially local and international service. In addition, GT&T implemented an earth station upgrade which increased the total number of circuits in operation from 75 to 168, resulting in a major impact on the ability of a United States or United Kingdom caller to reach Guyana.

The three countries having the greatest amount of traffic with Guyana are the United States, Canada and the United Kingdom. All of GT&T's 120 new digital circuits serve traffic between Guyana and the United States (for which there were previously 53 circuits, 27 of which were analog circuits retired from service upon implementation of the earth station upgrade). In August 1991, 15 of the 27 retired circuits were converted for traffic between Guyana and the United Kingdom, increasing the number of circuits from 10 to 25. GT&T plans to convert at least 12 of its U.S. circuits for traffic between Guyana and Canada (where GT&T currently has eight circuits) prior to the end of 1991. As a result of the recent expansion, GT&T believes that it may have some short-term excess capacity in circuits to the United States which it intends to lease to other regional telephone companies in adjacent South American countries or to close down until such time as such circuits are needed to serve traffic to and from Guyanese telephone subscribers.

GT&T anticipates that the new digital switch placed in service in Georgetown in June 1991 will improve the completion rate on telephone calls, the quality of telephone service and the capacity to accommodate additional access lines within Guyana. The new switch has an initial capacity of 21,000 lines, and is expandable. A principal limitation of the older analog technology, which was in place at GT&T at the time of the GT&T Acquisition, is that applications other than voice communications, such as text and computer data, require either separate networks or conversion equipment. By January 1994, GT&T anticipates that all of its electromechanical and semi-electronic analog switches will be replaced by digital equipment which would allow development of these applications.

Since GT&T's new digital switch became operational and GT&T increased the number of its international circuits, the volume of its international traffic has significantly increased. The following table sets forth, on a monthly basis, data with respect to GT&T's international traffic in 1991:

	Inbound Traffic	Outbound Traffic	Total Minutes
	(Millions of billed minutes)		
January(1)	1.465	0.495	1.960
February(2)	2.090	0.500	2.590
March	1.500	0.544	2.044
April	1.629	0.558	2.187
May	1.654	0.623	2.277
June(3)	1.633	0.694	2.327
July	1.765	0.720	2.485
August	2.540	0.630	3.170

(1) The Company acquired GT&T on January 28, 1991; billed minutes are included for the entire month.

(2) Inbound traffic includes calls generated in prior months and settled in February with AT&T.

(3) On June 2, 1991, GT&T placed a new digital switch in service, and, on June 28, 1991, GT&T increased the number of circuits between Guyana and the United States from 53 to 146.

GT&T's increase in billed minutes resulted in an increase in August 1991 in GT&T's revenues to $2.4 million and in its operating income before interest, income taxes and intercompany advisory fees to $1.6 million. These results represent increases of approximately 40% and 100%, respectively, over the corresponding average monthly results for the five-month period ended June 30, 1991. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." The data in this table does not reflect any increase in billed minutes as a result of GT&T's increase in circuits between Guyana and the United Kingdom which occurred in late August 1991, and GT&T plans to increase the number of circuits between Guyana and Canada by the end of 1991.

The Company anticipates that the volume of GT&T's international traffic will also increase due to future improvements in the quality of the domestic telephone system and additional penetration of GT&T's market. Pursuant to the GT&T Agreement and the License, the Company and GT&T are committed to implement the Expansion Plan, which will require substantially expanding and improving the service provided by GT&T. The objectives of the Expansion Plan, which must be fulfilled by January 28, 1994, are to: (i) improve incoming call completion and increase "trunking" capacity to the United States, Canada and the United Kingdom, so as to achieve a 60% minimum incoming completion rate; (ii) improve the quality of existing cable plant so as to reduce by 50% "fault" reports and the number of subscribers without service due to faulty plant; (iii) complete planning and engineering work for the extension of service in and around Georgetown (the capital of Guyana) and microwave and radio links to other industrial and population centers; (iv) connect at least 20,000 additional subscribers to the network within three years (5,000 by January 28, 1992, 7,000 by January 28, 1993 and 8,000 by January 28, 1994); (v) digitalize the network and provide service to various rural areas; (vi) reorganize the internal operations of GT&T and establish training and motivational programs; and (vii) continue to connect additional lines to the network so as to achieve "service on demand." In addition, the purchase agreement between the Government of Guyana and the Company (the "GT&T Agreement") provides for a minimum return to GT&T of 15% per annum on its rate base after January 1994.

GT&T plans to install approximately 500 public telephones, commencing in October 1991, providing such services as debit-card operation and direct connections to foreign operators, which management of GT&T anticipates will enhance international traffic. It is anticipated that this installation will be completed within 10 to 18 months. These public telephones, which will be the only public telephones with payment-receiving features in service in Guyana, will permit international as well as local calling, including collect calling to foreign countries (which is billed as inbound calls). Currently, GT&T maintains three public "telephone centers" at which the public can, upon payment of the charges in cash to GT&T personnel who staff these centers, use an ordinary residential-type telephone instrument to make domestic or international calls.

GT&T has also commenced other elements of its Expansion Plan, including construction of underground optical fiber links for domestic long-distance transmission between cities in Guyana and another optical fiber network for transmission between local exchanges. Previously, there were no optical fiber cables in Guyana.

GT&T has determined that certain aspects of the Expansion Plan cannot be carried out when and as originally planned. Subsequent to the GT&T Acquisition, GT&T was informed by Northern Telecom, Inc. that it could not manufacture a combination digital and cellular switch which it had contracted to supply to GT&T, and GT&T also learned that the population of Linden was substantially less, and the population of Beterverwagting was substantially more, than the population figures furnished to the Company by representatives of GTC prior to the GT&T Acquisition. As a result of this information, GT&T determined to change the nature and location of, and the time of scheduled installation for, certain switches and related facilities from that which was specified in the Expansion Plan. GT&T is currently discussing these changes in the Expansion Plan with the Government, and the Government has not yet agreed to these changes. Failure to fulfill the terms of the Expansion Plan could result in monetary penalties or revocation of the License.

On July 25, 1991, the Deputy Prime Minister of Guyana for Trade, Tourism and Industry advised GT&T that, because "allegations of serious financial improprieties in the management of the Guyana Telephone and Telegraph Company" have been brought to his attention, one consequence of which has allegedly been that GT&T "has been starved of funds" causing the Expansion Plan to be behind schedule, the Deputy Prime Minister has decided to appoint a firm of auditors "to obtain full and complete information relating to the business and operations of GT&T." The Deputy Prime Minister did not identify any specific alleged impropriety. GT&T has advised the Deputy Prime Minister that it is not aware of any "financial improprieties," that it is untrue that GT&T has been "starved for funds" and that, to the extent that elements of the Expansion Plan have been delayed, delays have been due to the inability of certain suppliers to deliver equipment as promised and to instances of theft and destruction of GT&T copper cable. Although GT&T has welcomed an audit and has urged the Deputy Prime Minister to conduct it promptly, to date, no audit has commenced. Except for the changes discussed above, the Company believes that it is in substantial compliance with the terms of the Expansion Plan.

GT&T anticipates that the aggregate capital expenditures required to implement the Expansion Plan will be approximately $55 million (including approximately $14.7 million expended through June 30, 1991). GT&T has contracted to obtain approximately $45 million (including approximately $11.5 million under a contract entered into by GTC before the GT&T Acquisition and assumed by GT&T) of equipment (including certain engineering and installation charges) needed to implement the Expansion Plan from Northern Telecom (CALA) Corporation and has obtained financing commitments for these purchases from NTIF. The equipment purchase contract relating to the loan agreement, dated January 28, 1991, between GT&T and NTIF, guaranteed by the Company (the "GT&T Equipment Loan"), requires that GT&T purchase at least $34 million of equipment during the three-year term of the contract, of which $15 million is to be ordered during 1991 and a total of $25 million is to be ordered by March 31, 1993.

Other Services. GT&T is also licensed to provide various telephone-related services that extend beyond basic telephone service, including yellow pages and other directory services, and it has an exclusive license to sell, lease or service various kinds of telecommunications equipment. Under the License, GT&T's rates for most of these services must be specified in a tariff approved by the PUC. See "Business—Regulation—Guyana."

OPIC Insurance. The Company has obtained insurance from OPIC with respect to total expropriation of GT&T and political violence in Guyana. The OPIC insurance coverage is limited to 90% of the Company's investment of $16.5 million in GT&T (*i.e.*, a maximum of $14.9 million) (the "OPIC Equity Insurance"), and 85% of any amounts paid by the Company with respect to its guaranty to repay obligations of GT&T to NTIF in the amount of up to $34 million plus interest (for a stated maximum coverage of $33.9 million) (the "OPIC Guaranty Insurance", and, together with the OPIC Equity Insurance, being referred to herein as the "OPIC Insurance"). Additional OPIC insurance coverage is currently available with respect to 90% of the increase in the Company's investment in GT&T by reason of increases in retained earnings or additional investments. The Company presently intends to increase its coverage to the extent that its investment increases, provided that such insurance continues to be available at commercially reasonable rates.

Compensation is generally payable under the OPIC Insurance for total expropriation for an act or series of acts, if: (a) the acts are attributable to the Government of Guyana; (b) the acts are violations of international law or material breaches of local law which are not remedied; (c) the acts directly deprive the Company of the benefits of its investment in GT&T; and (d) the expropriatory effect continues for one year. Non-renewal of the License after the initial specified period and actions validly and legally taken by the Government of Guyana acting within the scope of its authority pursuant to the GT&T Agreement or otherwise, which result in the cancellation of the License due to non-compliance by the Company with the GT&T Agreement or the terms of the License, do not constitute expropriation.

Compensation is generally payable under the OPIC Insurance if political violence (*i.e.*, a violent act undertaken with the primary intent of achieving a political objective, such as declared or undeclared war, hostile action by national or international armed forces, civil war, revolution, insurrection, civil strife, terrorism or sabotage) directly causes permanent damage to or destruction of tangible property of GT&T, to the extent of the insured percentage of the Company's interest in GT&T, in the case of the OPIC Equity Insurance, or, in the case of the OPIC Guaranty Insurance, to the extent of the insured percentage of the Company's payments under the GT&T Equipment Loan (and not to the full extent of the fair market value of the property in either case). The OPIC Insurance covers only specified risks and insures the Company for less than the fair market value of its investment in GT&T. It does not insure against future loss of revenues or profits.

Other Guyana-Related Operations. In July 1990, the Company filed an application with the FCC for authority to provide direct international telephone service between the United States and Guyana. Pursuant to this authority, the Company would be allowed, through an operating agreement with

GT&T, to carry calls from local exchange carriers in the United States or from United States long-distance carriers (such as MCI and Sprint) to Guyana, and from Guyana to local exchange or United States long-distance carriers servicing the United States. In connection with its application, the Company informed the FCC that it intends to route all U.S.-bound traffic from Guyana for termination in the U.S. to the Company rather than to AT&T, which currently receives 100 percent of the U.S.-bound Guyana traffic. The FCC has not yet acted on this application. The Company expects the FCC to consider, among other things, effects upon market competition in its review of this application. In connection with the Company's application, the FCC also has asked for comment, with regard to its further notice of proposed rulemaking concerning international accounting rates, on whether it should impose any conditions on authorizations of U.S. international carriers that seek to serve a foreign country in which such a carrier has an ownership interest in a carrier that either holds some form of privileged access to the foreign country or otherwise has market power, as is the case with the Company. Under the circumstances, there can be no assurance that the Company's application will be approved unconditionally or with conditions that are acceptable to the Company.

Cellular and Other Operations

The Company is engaged in other telecommunications operations, including providing cellular telephone service in the U.S. Virgin Islands, reselling cellular telephone service to the maritime industry in a broader geographical area and selling and leasing telecommunications equipment in the U.S. Virgin Islands. These other operations provided approximately 10% of the Company's pro forma consolidated revenues in 1990.

Vitelcom Cellular, which commenced business in September 1989, provides cellular telephone service to land-based and marine customers in the U.S. Virgin Islands. In September 1989, following Hurricane Hugo, Vitelcom Cellular was granted special temporary authority by the FCC to construct and operate cellular systems in the two U.S. Virgin Islands Rural Service Areas (as defined by the FCC) and, as such, was the second cellular system to become operational in a Rural Service Area in the United States. Since late 1990, Vitelcom Cellular has been providing service in such Rural Service Areas pursuant to regular authority from the FCC. Vitelcom Cellular currently provides cellular telephone service for resale to ships through its affiliate, MCN, and to Cruisephone, Inc., an unaffiliated company providing cellular telephone service to cruise ships. Vitelcom Cellular has entered into an agreement with Cruisephone, Inc. pursuant to which Cruisephone, Inc. has agreed to route a minimum of 80% of its total minutes of cellular traffic in the U.S. Virgin Islands through Vitelcom Cellular until June 1, 1996.

On October 12, 1990, Comsat Mobile Investments, Inc. ("CMI"), a subsidiary of Communications Satellite Corporation ("Comsat"), purchased 10% of the common stock of Vitelcom Cellular for a purchase price of $1.4 million.

MCN commenced operations in September 1990 to resell to merchant and cruise ships the cellular telephone services of facilities-based carriers along the east and west coasts of North and South America and in the Far East. Cellular telephone service permits ships, when within range of a cellular telephone system, to interconnect with the international public switched telephone network at significantly lower cost than satellite-based services.

On August 12, 1991, MCN entered into a five-year agreement with CMI pursuant to which CMI will purchase through MCN all of its cellular service requirements for resale to cruise ships in certain domestic and foreign markets. Comsat currently provides satellite-based telephone service to more than 7,200 ships around the world, including more than 40 cruise ships. On August 12, 1991, CMI purchased 10% of the common stock of MCN for $400,000, and acquired an option to purchase up to an additional 35% of the common stock of MCN, upon certain conditions, at a price based upon a valuation using 75% of the average Standard & Poor's 500 price/earnings multiple. Comsat will become MCN's exclusive distributor of cellular service to cruise ships, and MCN will continue to market its service directly to merchant vessels. As of September 20, 1991, MCN had 218 ships under contract.

Vitelcom earns revenues from the sale, lease and servicing of customer premises equipment, facsimile machines, radio paging devices and private branch exchanges in the U.S. Virgin Islands.

An operating division of ATN-VI known as CALLS resells off-island domestic and international telecommunications services in the U.S. Virgin Islands, at discount rates. The Company entered this business on July 31, 1989 when ATN-VI acquired, for $107,000, certain assets from the trustee in bankruptcy of Caribbean Automated Long Lines Services, Inc. which had started this business. To date, CALLS has not been profitable and is not expected to have a material affect on the Company's revenues or earnings.

Discontinued Line of Business

In July 1991, the Company decided to discontinue the operations of PRT, which had been engaged in reselling long-distance telecommunications service to telephone subscribers in Puerto Rico, after determining that this line of business no longer meets the Company's long-term strategic objectives. See Note C to Consolidated Financial Statements.

Competition

General. United States regulatory and judicial decisions, as well as advances in technology, have opened the telecommunications marketplace to increasing competition. In the United States, long-distance services, billing and collection services, the sale, lease and servicing of customer premises equipment and the installation and maintenance of inside wiring have been deregulated and/or detariffed by the FCC. Furthermore, new technology has provided the means by which business customers can reduce their use of the local exchange network. Long-distance carriers continue to seek competitive alternatives to the local exchange network to gain access to their customers for both interstate and international communication.

Local Service. The local telephone segment of the United States telecommunications industry consists of the seven Bell regional holding companies spun off by AT&T in 1984 and approximately 1,300 "independent" local phone companies, including Vitelco. The firms in this segment are frequently holding companies, which own both regulated telephone subsidiaries and nonregulated subsidiaries. Pursuant to a franchise from the Government of the U.S. Virgin Islands, Vitelco is the sole provider of local telephone service in the U.S. Virgin Islands. See "Business—Vitelco."

Pursuant to a franchise from the Government of Guyana, GT&T has the exclusive right to provide, and is the sole provider of, local telephone service in Guyana. See "Business—Regulation—Guyana."

Access Service. Many local network access services, including Vitelco, face potential competition from bypass, which is a direct connection from a customer premises to a long-distance carrier which avoids or "bypasses" the local network. Generally, the economic incentive to bypass is largely dependent on the price levels and structures of a local telephone company's access services. In addition, only larger businesses or institutional customers (of which there are not a substantial number in the U.S. Virgin Islands) normally make use of or can justify economically bypass. Currently, the Company is aware of only two of Vitelco's local subscribers who use bypass, one of which presently utilizes CALLS. Since Vitelco's revenues are derived primarily from smaller businesses and households, and since bypass is not a risk for GT&T, the Company's management does not believe that bypass currently poses a material threat to the Company's telephone business.

Long-Distance Service. In the United States, long-distance service is highly competitive, and CALLS faces significant competition in the U.S. Virgin Islands.

GT&T is the exclusive provider of domestic long-distance service and international telephone service in Guyana. See "Business—GT&T—International Traffic."

Cellular Services. Pursuant to FCC rules, one competing cellular telephone service has been authorized for St. Thomas and St. John, and another has been authorized for St. Croix. Both competing cellular licensees notified the FCC in September 1991 that they have become operational. The authorization for the competing service in St. Thomas and St. John is controlled by an individual who has a controlling interest in the operator of the only cellular telephone system in the British Virgin Islands which are adjacent to St. Thomas and St. John. The Company will also face competition from resellers of cellular service, including one which is currently operating with respect to the offshore cruise ship and boating markets. The Company's ability to compete in the offshore cruise ship and boating markets will depend on several factors, including the price and quality of services offered. The Company also expects to face competition both on land and in the offshore cruise ship and boating markets from other mobile communications technologies. See "Business—Cellular and Other Operations."

In Guyana, GT&T has a non-exclusive franchise to provide cellular telephone services. Accordingly, there can be no assurance that GT&T's cellular telephone business will not face competition in Guyana, although none exists at present.

Other Services. Vitelcom faces substantial competition, principally based upon price and product performance, from other providers of customer premises equipment, facsimile machines, radio paging and other nonregulated products and services, some of which have greater resources than the Company.

GT&T has the exclusive franchise to provide telephone directories and directory advertising and to supply a wide variety of telecommunications equipment in Guyana. GT&T has not yet commenced any of these activities in Guyana. See "Business—GT&T."

Properties

The facilities and properties of the Company are primarily located in the U.S. Virgin Islands and in Guyana.

At June 30, 1991, the Company (including Vitelco, Vitelcom Cellular and Vitelcom) utilized approximately 112,000 square feet of building space on approximately 17 acres of land in various locations throughout the U.S. Virgin Islands. Of this space, approximately 92,000 square feet of building space on approximately 13.5 acres was owned (subject to a first priority security interest securing indebtedness under the Vitelco/RTFC Loan and the REA Loan) and 20,000 square feet on approximately 3.05 acres was leased. Vitelco carries insurance against damage to any of its property and business interruption insurance for damage to any of its properties other than telephone poles, cables and lines. Vitelco also carries insurance to cover extra expenses associated with repairing any damaged equipment or buildings, in an amount up to $17 million.

The Company's casualty (including wind and hurricane damage) and business interruption insurance coverage is presently maintained with The Travelers Insurance Company ("Travelers") and is scheduled to expire in June 1992. Travelers has informed the Company that it does not intend to renew the Company's existing coverage after such time, as it has determined generally to discontinue writing casualty and business interruption insurance coverage in the Caribbean area. The Company believes that insurance coverage substantially similar to the Company's existing coverage will be available from other carriers or in other insurance markets, including the insurance market in London, England, upon expiration of the term of the Company's existing policies. There can be no assurance, however, that any such coverage (or comparable coverage) will be available at such time. In the event of any such lack of availability, the Company will be required to self-insure against property damage or casualty and business interruption risks.

Vitelco's network system principally utilizes the ITT System 1210 Digital Switch (the "1210 Switch") interconnected by fiber optic cable (on an intra-island basis) and digital microwave radio (on an inter-island basis). In addition, in January 1989, Vitelco purchased a DMS-100 switch (the "DMS-100 Switch") from Northern Telecom (CALA) Corporation and installed the switch in July 1989 in its main office in St. Thomas. The DMS-100 Switch has increased Vitelco's capacity to serve access lines.

Vitelcom Cellular's system in the U.S. Virgin Islands consists of two full power cell sites and one low power enhancer on St. Thomas, a full power cell site and a high power enhancer on St. John, and two full power cell sites on St. Croix, which cover most of the land area of the islands and the surrounding waters. Despite the small land area of the islands, the mountainous terrain requires multiple radio sites for adequate coverage. The mobile telephone switching office that controls all of the radio sites is located on St. Thomas. All of Vitelcom Cellular's switching equipment is manufactured by Northern Telecom, Inc.

At June 30, 1991, GT&T utilized approximately 253,982 square feet of building space on approximately 40.68 acres of land in various locations throughout Guyana, all of which is owned by GT&T. For additional information as to GT&T's present and planned facilities, see "Business—GT&T—Expansion Program." GT&T carries insurance against damage to equipment and buildings, but not to outside plant.

Regulation—U.S. Virgin Islands

The Company's long-distance access services, its interstate and international telecommunications services and its radio-based services in the U.S. Virgin Islands are regulated by the FCC; Vitelco's local telephone service in the U.S. Virgin Islands is regulated by the PSC.

Franchise. Vitelco provides basic local telephone service in the U.S. Virgin Islands pursuant to a franchise granted by the Government of the Virgin Islands on October 9, 1959. Vitelco's franchise grants Vitelco the right to provide basic local telephone services in the U.S. Virgin Islands. The franchise is for an indefinite term unless and until terminated by the Government of the U.S. Virgin Islands upon two years' prior written notice. In the event of such a termination, the franchise provides that the Government of the U.S. Virgin Islands shall expropriate the entire business, plant and facilities of Vitelco. The Company has no reason to believe that the Government of the U.S. Virgin Islands intends to exercise its right of termination in the foreseeable future. Vitelco derives local telephone service revenues from fixed monthly local service charges to subscribers at rates regulated by the PSC.

The FCC. The FCC has jurisdiction over the rates for interstate and international telecommunications services provided by U.S. carriers and for access services provided by local exchange carriers to long-distance carriers, as well as other matters relating to these services. In the case of nondominant interstate carriers, such as the Company's operating division, CALLS, the FCC forebears from regulating rates and entry. The FCC requires that all international carriers obtain operating certificates and file tariffs, although nondominant carriers, such as CALLS, are subject to less onerous regulation.

The FCC has established a system of access charges to compensate local exchange carriers for the costs of originating and terminating long-distance services, including a fair return on investment. The FCC established NECA to prepare and file access charge tariffs for both traffic sensitive and non-traffic sensitive rate elements on behalf of all telephone companies that do not file separate tariffs or concur in a joint access tariff of another telephone company for all access elements and to administer the USF. Prior to 1989, Vitelco participated in the NECA tariff for both traffic sensitive and non-traffic sensitive access elements and, as such, participated in the common rates of return earned by the participating telephone companies. Effective April 1, 1989, Vitelco commenced filing its own access tariff with the FCC, which specifies Vitelco's charges to long-distance carriers for traffic sensitive access elements and references the NECA tariff for non-traffic sensitive access elements. Vitelco continues to participate in and receive reimbursement from the non-traffic sensitive access charge revenue pool administered by NECA.

The non-traffic sensitive portion of Vitelco's costs allocated to long-distance service is recovered through (i) flat-rate per line monthly access charges to subscribers of $3.50 per month per line and (ii) allocations to Vitelco from NECA's non-traffic sensitive pool of receipts from long-distance carriers. The revenues derived from the USF are considered to be local revenues for ratemaking purposes, rather than long-distance revenues, thereby reducing the rates payable by local subscribers. For further information with respect to the amount of revenues derived by Vitelco from the USF, see "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Cellular licenses and other public land mobile licenses are issued by the FCC for a term of ten years. Near the conclusion of the term, licensees must file applications for renewal to obtain authority to operate for an additional ten-year term. These applications may be denied for cause and other parties may file competing applications for the authorization. The FCC currently has pending a rulemaking proceeding in which it is considering the standards to be applied in cellular license renewal proceedings, which may involve a hearing if qualified competitors for the authorization file applications.

The PSC. Vitelco's local telephone operations, including the services offered and the rates for those services, are subject to the jurisdiction of the PSC, which has jurisdiction over public utilities and transportation in the U.S. Virgin Islands pursuant to Title 30 of the U.S. Virgin Islands Code. Under Title 30 of the U.S. Virgin Islands Code and the rules and regulations promulgated thereunder, Vitelco is allowed to charge local service rates that will permit it to earn a reasonable return on investment and to recover its operating expenses. The rate of return is the amount of money earned by a utility in excess of operating costs, stated as a percentage of the utility's rate base, which is the value of the utility's property devoted to the provision of telephone service minus accumulated depreciation. The rate of return must be adequate to permit the utility to maintain its credit and to attract new capital. Vitelco may file new rates thirty days prior to the time the rates are intended to be effective. The new rates will become effective unless the PSC suspends them and initiates an investigation into their reasonableness. If the PSC determines that the proposed rates are unreasonable, the PSC may order that rates for the future be reduced. The PSC also may initiate an investigation of existing rates if it believes that these rates are unreasonable.

Since the Company's acquisition of Vitelco in June 1987, and principally because of the acquisition and the indebtedness incurred in connection therewith, the Company and certain of its subsidiaries have been involved in numerous legal and administrative proceedings with the PSC. Beginning prior to June 1987, there were contested proceedings before the PSC, and litigation in the U.S. District Court of the U.S. Virgin Islands and the Court of Appeals for the Third Circuit, on the issue of the PSC's right to approve, or impose conditions on, the acquisition. As a result of such litigation, the Court of Appeals held that the PSC had authority to impose conditions on the acquisition of Vitelco. On January 13, 1989, the PSC ordered the rescission of the acquisition unless ATN-VI, Vitelco and the RTFC met numerous requirements concerning the management (including a requirement that the Selling Stockholders be prohibited from participating in the senior management of Vitelco) and financial condition of Vitelco by March 19, 1989. Those requirements were not fully met by that date, and the PSC ordered the commencement of proceedings to finalize the terms of the rescission of the acquisition. On January 19, 1989, after lengthy proceedings, the PSC also issued orders reducing the Company's local service revenues by approximately $4.8 million per annum, effective February 1, 1989, which reduction was never implemented.

On April 19, 1989, ATN-VI, Vitelco, the RTFC and the PSC entered into the Settlement Agreement, resolving nearly all of the then pending proceedings. In the Settlement Agreement, Vitelco agreed to certain retroactive rate reductions effective January 1, 1988 and January 1, 1989 and an additional rate decrease of $1,688,000 per annum effective as of April 1, 1990. Pursuant to the Settlement Agreement, the PSC retroactively approved the acquisition of Vitelco subject to the satisfaction of certain conditions including, among other things, the attainment by Vitelco of an "equity ratio" of 25% by December 31, 1989. In addition, the Settlement Agreement provided that the prior approval by the PSC would be required for any future direct or indirect transfer by the Company of 51% or more of Vitelco's common stock. The Settlement Agreement also provided for certain restrictions and approval rights on intercompany transactions and advisory fees and committed Vitelco to certain service, construction and employee levels (including the expenditure of a minimum of $40 million on construction for the five-year period from 1989 to 1993).

On February 16, 1990, as a consequence of Hurricane Hugo, Vitelco submitted an application for emergency relief from the final rate reduction of $1,688,000 scheduled to go into effect on April 1, 1990 pursuant to the Settlement Agreement as well as the earlier reductions implemented under the Settlement Agreement. The request, designated Docket 334 by the PSC, was based primarily on the massive increase in plant investment necessitated by the hurricane's destruction. The PSC did not grant Vitelco's request for elimination of the rate reductions mandated by the Settlement Agreement, but deferred the April 1 rate reduction to November 1, 1990, and gave Vitelco the right to demonstrate offsets to the rate reduction or the need for rate increases by filing an amended application on or before September 1, 1990. It also prohibited the payment of dividends or advisory fees during the deferral period. On August 20, 1990, Vitelco filed an amended application supporting its request for a rate increase of $6,750,000 per annum. On September 18 and 19, 1990, the PSC held a hearing to determine whether Vitelco had violated certain aspects of the Settlement Agreement and the PSC order deferring the April 1, 1990 rate decrease (the "Deferral Order"). The Company offered testimony that it had not violated the Settlement Agreement or the Deferral Order.

Nonetheless, the PSC issued an order on September 28, 1990 in which it concluded that loans by Vitelco to affiliates after issuance of the Deferral Order constituted dividends in violation of the Deferral Order, that, prior to the Deferral Order, advisory fees had been paid in violation of the Settlement Agreement and that payment of such dividends and advisory fees had caused Vitelco's "equity ratio" to fall below 25% as of December 31, 1989, also in violation of the Settlement Agreement. The PSC ordered (i) implementation of the $1,688,000 per annum rate reduction on or before October 1, 1990 with retroactive effect from April 1, 1990 and repayment of all sums denominated loans to affiliates within 30 days of such order, (ii) a prohibition on any further loans or payments to affiliates without prior PSC approval, (iii) return of funds to Vitelco sufficient to achieve a 25% "equity ratio," (iv) submission of a plan to separate fully from Vitelco the operations of its affiliates and (v) payment of advisory fees based solely upon a percentage of toll related revenues. The PSC also deemed Vitelco's annual reports and reports of transactions with affiliates since the Company's acquisition of Vitelco to be interim in nature and subject to change. Because immediate implementation of the $1,688,000 per annum rate decrease rendered meaningless further prosecution of Vitelco's request for a rate increase, which was set for hearing on October 24, 1990, Vitelco withdrew its request and appealed the PSC's order to the U.S. District Court of the Virgin Islands.

On April 19, 1991, the District Court vacated the PSC's order on the grounds that a biased ex officio member of the PSC had participated. The Court also found that the PSC had acted arbitrarily and capriciously when it ordered immediate implementation of the $1,688,000 rate reduction without giving Vitelco an opportunity to demonstrate offsets or the need for a rate increase. Effective July 26, 1991, the PSC, Vitelco and ATN-VI entered into the PSC Agreement resolving all outstanding issues except issues related to future rates. In particular, all charges relating to Vitelco's alleged failure to comply with prior PSC orders and the Settlement Agreement were resolved without any finding of non-compliance and with prejudice to the PSC's refiling of these charges.

In settlement of the rate issues in Docket 334, which covered the period from April 1, 1990 to December 31, 1990, Vitelco agreed to implement "911" emergency service at no cost to its subscribers, provided that the Government of the Virgin Islands passes a law indemnifying Vitelco from any claims arising out of operation of such a service. If "911" service is not implemented within 180 days from approval of the agreement by the PSC, for any reason, Vitelco will be required to credit customers for $700,000 in the aggregate over a two-month period. In addition, Vitelco also agreed to credit customers in their October and December 1991 bills with $700,000 in the aggregate. This credit is derived from an accumulated reserve of funds originally intended for establishment of a lifeline telephone assistance program, which funds have been deemed to be in excess of what is required for implementation of the program. Accordingly, because the Company has previously recorded a $700,000 liability on its financial statements, this credit will have no impact on Vitelco's earnings.

Vitelco and the PSC also agreed to the following material terms: (i) except for a promissory note from Vitelcom to Vitelco with a balance due of $1.8 million and a promissory note from ATN-VI to Vitelco with a balance due of $2.5 million, which would be paid in accordance with their terms, Vitelco would be repaid for all outstanding loans and advances by Vitelco to affiliates (approximately $8.4 million as of August 31, 1991) by July 26, 1992; (ii) Vitelco would be prohibited from making further loans to or payments on behalf of affiliated companies; (iii) in those instances where allocations of expenses between Vitelco and an affiliate are necessary, the affiliates would repay Vitelco within 60 days the amount due from that affiliate with interest at one percent above prime; (iv) ATN-VI would cause Vitelco to achieve an equity ratio of 25% by December 31, 1991 (which will be accomplished by a contribution to Vitelco's equity of a portion of the proceeds of this Offering; see "Use of Proceeds") and thereafter maintain at least that equity ratio (in the PSC Agreement, this ratio has been defined as the ratio of Vitelco's common equity to Vitelco's total capital structure, consisting of common equity, short-term debt, long-term debt and current portions of long-term debt, provided that short-term debt to be included in the computation of capital structure is the actual short-term debt minus 3-½% of Vitelco's total capital structure, including total short-term debt); (v) compliance with the equity ratio requirement would be determined on the basis of a simple average of the preceding six months, except for the period of December 31, 1991 through May 31, 1992, when it will be based on month-end averages from December 31, 1991 through the date on which compliance is being measured; (vi) until September 1992, Vitelco may include in its equity for purposes of calculating its equity ratio approximately $3.8 million (in addition to amounts currently accrued) with respect to its business interruption insurance claim; (vii) Vitelco would be prevented from paying dividends in excess of 60% of net income if its equity ratio is below 40%; (viii) Vitelco would be prohibited from paying any dividends, if its equity ratio falls below 25%, except that, subject to certain limits, Vitelco could make four quarterly payments between December 31, 1991 and December 31, 1994, even if its equity ratio falls below 25% on the relevant dividend declaration date, once it has achieved a 25% equity ratio in accordance with the PSC Agreement; (ix) within one year after the date of the agreement, Vitelco would engage a new chief executive officer who would not be an employee, executive or member of the board of directors of any affiliate of Vitelco or have any ownership interest in excess of 5% in any affiliate of Vitelco and who would be allowed the normal range of discretion for a chief executive officer of a public utility and, upon the hiring of such chief executive, Messrs. Prior and Prosser would retire as executives of Vitelco but would retain their positions on Vitelco's board of directors; (x) Vitelco would not record advisory fees related to local service on its books so as to include them in its revenue requirement from local rate payers without a prior PSC determination that they are reasonable; and (xi) Vitelco would pay a $100,000 outstanding PSC assessment and withdraw its challenge to a previously paid $350,000 assessment.

Future rates for service (retroactive to January 1, 1991 pursuant to an earlier agreement with the PSC postponing the hearings in this matter) will be determined in PSC Docket 341 which was initiated shortly after Vitelco withdrew its request for a rate increase in October 1990. Docket 341 involves a recommendation by the PSC's consultants that there be a $6,837,000 per annum rate reduction and a claim by Vitelco for a $5,597,000 per annum rate increase. Hearings were held in Docket 341 on March 19–21, 1991. Any decisions of the PSC may be appealed to the U.S. District Court.

The PSC does not currently regulate cellular telephone service or rates. Having been advised by its counsel that it has jurisdiction to regulate cellular telephone service, the PSC initiated a proceeding in April 1990 to consider the terms and conditions pursuant to which cellular service is being offered. Because Vitelcom Cellular was the only cellular telephone operator in service at the time, the PSC tabled the proceedings, and no further hearing dates have been established. Although many states require the filing of cellular tariffs, no state engages in rate of return regulation of cellular rates.

The membership of the PSC is currently in a state of transition. The PSC consists of nine members, seven of whom are appointed by the Governor and confirmed by the Legislature of the U.S. Virgin Islands, and two of whom are non-voting members and are U.S. Virgin Islands Senators appointed by the President of the Legislature. In May 1991, when the PSC had five voting members, all of whose terms had expired and who were serving holdover terms until they were reappointed or replaced, the Governor submitted a new list of appointees to the Legislature reappointing three of the five then current members and appointing four new persons to the PSC. Since that time, one of the reappointed members resigned, one of the newly-appointed members withdrew his name from consideration by the Legislature, the Rules Committee of the Legislature recommended approval of the three remaining newly-appointed members and, having been advised by counsel to the Legislature that the two remaining reappointed nominees may be confirmed only if the Legislature finds that they have performed "exceptional service" on the PSC, the Rules Committee has advised the Governor of the Virgin Islands that he must appoint two other persons to replace these nominees.

Regulation—Guyana

All of the legislation and the regulatory framework for telecommunications companies in Guyana has been enacted within the past year in connection with the privatization program of the Government of Guyana, and the members of the PUC were appointed in April 1991. Prior to the Company's acquisition of its 80% interest in GT&T, the Government of Guyana had no prior experience in regulating a privately-owned public utility. See "The Co-operative Republic of Guyana." Certain provisions of the License and of the Guyana Public Utilities Commission Bill 1990 (the "PUC Law") and the Guyana Telecommunications Bill 1990 (the "Telecommunications Law") applicable to GT&T are summarized below.

License. The License grants GT&T an exclusive franchise to provide in Guyana (i) for a period of 20 years (renewable for 20 years at the option of GT&T), public telephone, radio telephone (except private radio telephone systems which do not interconnect with GT&T's network) and pay station telephone services and national and international voice and data transmission, sale of advertising in any directories of telephone subscribers and switched or non-switched private line service; and (ii) for a period of 10 years (renewable for 10 years on a non-exclusive basis at the option of GT&T) supply of terminal and customer premises equipment and telefax, telex and telegraph service and telefax network service (without prejudice to the right of any other person to undertake any of the following operations: (a) sale of telefax or teleprinter machines, (b) maintenance of telefax or teleprinter equipment, or (c) operation of any facility for the sending or receiving of telefax copies or teleprinter messages). In addition, GT&T was granted a non-exclusive license to provide, for a period of 20 years (renewable for 20 years at the option of GT&T), cellular radio telephone service provided that the license does not prejudice the rights of Guyana's Institute of Applied Sciences and Technology to make provision for, or to provide, any telecommunications services in the course of, or in connection with, the carrying out of its functions.

The Telecommunications Law, the GT&T Agreement and the License include various provisions under which the License may be terminated before its scheduled expiration date. Under the applicable Guyana law and the GT&T Agreement, Guyana's director of telecommunications may cause early termination of the License in certain cases, including contravention of any of the provisions of the Telecommunications Law or the conditions of the License, including failure to implement the Expansion Plan in a timely fashion. See "Business—GT&T—Expansion Program." If GT&T believes that the License has been terminated unlawfully, it may appeal to the courts of Guyana. Pursuant to the GT&T Agreement, upon non-renewal of the License, the Government will be entitled to purchase the Company's interest in GT&T or the assets of GT&T, on such terms as may be agreed between the Company and the Government or, upon failure to reach such agreement, as determined by arbitration conducted by the International Centre for the Settlement of Investment Disputes.

PUC Law and Telecommunications Law. The PUC Law and the Telecommunications Law, both adopted in 1990, provide the general framework for the regulation of telecommunications services in Guyana. Under the PUC Law and the Telecommunications Law, a provider of public telecommunications services, such as GT&T, must operate under a license granted by the Minister of Communications and Works. GT&T's license was granted on December 19, 1990.

The PUC is the governmental agency in Guyana principally responsible for regulating telecommunications services. The PUC has broad powers to monitor GT&T's compliance with the License, and to require GT&T to supply it with such technical, administrative and financial information as it may request.

The PUC Law provides the basis for setting the rates of a telecommunications licensee. GT&T's rates for existing services cannot be increased for a period of three years from the commencement of the License, except for increases due to: (i) a change in long-distance charges payable to foreign correspondents; (ii) the cost of providing service to interior areas of Guyana specified in the Expansion Plan proving to be substantially higher than as stated in the Expansion Plan; (iii) the occurrence of any natural disaster or other act of God, leading to extensive destruction of plant and equipment; provided that GT&T maintains certain insurance coverage and that the sums paid by any insurer of GT&T are not sufficient to meet the expenses of restoring the services; (iv) a substantial increase in the exchange rate of Guyanese currency for U.S. dollars; or (v) the imposition on GT&T of any taxes, fees or a material increase in any existing taxes, duties or fees, so as to recover the cost of such imposition or increased taxes or fees. Subject to the foregoing limitation, GT&T is entitled, pursuant to the GT&T Agreement, to a minimum return to GT&T of 15% per annum on its rate base. In March 1991, GT&T filed an application to increase its local rates by 2.11 times its present rates (approximately $.30 per month for residential service and approximately $.85 per month for business service) and to increase its international rates by 2.84 times its present rates to adjust for a substantial increase in the exchange rate of Guyanese currency for U.S. dollars on February 21, 1991, when the Government of Guyana devalued the Guyanese currency, and for the increase (in terms of Guyanese currency) in long-distance charges payable to foreign carriers by reason of the devaluation of Guyanese currency. A hearing on such rate increase is scheduled for October 9, 1991. There can be no assurance that GT&T's application to increase its rates will be approved.

GT&T expects to file a tariff covering certain enhanced services, pay telephone service and cellular telephone service with the PUC in October 1991.

FCC Matters. In 1990, the FCC initiated a rulemaking with the intention of reforming its international settlements policy to promote lower, more cost-based international accounting rates and to promote international calling price reductions. The FCC has indicated that it has initiated this proceeding in part because current international accounting rates and high foreign calling prices to the United States result in a U.S. settlement deficit of nearly $3 billion annually. Accounting rates currently are the product of bilateral negotiations between carriers and cannot be changed except by mutual agreement of the carriers involved. The rulemaking did not change the manner in which accounting rates are set, although the position stated by the FCC is that it has the power to mandate the level of accounting rates paid by U.S. carriers. To date, the FCC has never mandated the level of accounting rates. In May 1991, the FCC adopted two procedural reforms to simplify and expedite FCC approval of accounting rate reductions and directed U.S. international carriers to negotiate lower rates. It also provided for FCC monitoring of progress toward such reductions with carriers in Europe and Asia by January 1, 1993. The FCC also adopted a further notice of proposed rulemaking which will consider, among other matters, whether the FCC should establish a maximum rate that U.S. carriers should pay to terminate U.S.-originated calls in the developing countries of Latin America (which includes Guyana) and Africa. The FCC has asked for comment on the factors that bear upon this determination, including whether international calling revenues should be used to assist in the development of the telecommunications infrastructure in developing countries. There is significant international opposition to attempts by the FCC to unilaterally establish the level of accounting rates. Organizations representing many developing countries have submitted comments to the FCC in its accounting rate proceeding opposing the FCC's attempt to force a reduction in accounting rates. Although a change in accounting rates requires agreement between carriers, there can be no assurance that the FCC or other foreign regulatory bodies will not adopt regulations that would result in reductions in the accounting rates charged by GT&T under its operating agreements with U.S. or other foreign carriers.

Taxation—U.S. Virgin Islands

Although the U.S. Virgin Islands is a taxing jurisdiction separate from the United States, the U.S. Internal Revenue Code, Title 26 U.S.C. (1986), is the controlling taxing statute in the U.S. Virgin Islands, with the words "Virgin Islands" substituted for the words "United States" where appropriate. A corporation organized under the laws of the U.S. Virgin Islands is generally taxed at a 34% rate on its worldwide income, subject to reduction by foreign tax credits, if available, plus a surcharge equal to 10% of the basic tax (*i.e.*, an additional 3.4%). A corporation which is not organized under the laws of the U.S. Virgin Islands is generally subject to corporate income tax at a 34% rate, plus an additional 3.4% surcharge, on income effectively connected with a trade or business in the U.S. Virgin Islands, and to a 10% branch profits tax on effectively connected earnings and profits which are not reinvested in its U.S. Virgin Islands trade or business. Corporations not organized in the U.S. Virgin Islands are generally subject to a 10% U.S. Virgin Islands withholding tax on interest or dividends received from sources within the U.S. Virgin Islands (other than any dividends received from a corporation not organized under the laws of the U.S. Virgin Islands). Further, Section 1274(b) of the Tax Reform Act of 1986 authorizes the U.S. Virgin Islands to enact non-discriminatory local income taxes. Corporations and other taxpayers are also generally subject to property, gross receipts, excise and stamp taxes in the U.S. Virgin Islands. Under the U.S. Virgin Islands Industrial Development Programs (the "IDP"), the U.S. Virgin Islands may offer tax benefits to qualifying businesses for the purpose of promoting the growth, development and diversification of the U.S. Virgin Islands economy.

ATN-VI, Vitelco, Vitelcom and Vitelcom Cellular (the "ATN-VI Group") file a consolidated income tax return in the U.S. Virgin Islands. Pursuant to the IDP and subject to the satisfaction of certain conditions by Vitelco, Vitelco has been granted the following tax benefits through September 30, 1996: (i) a rebate of 11.25% of Vitelco's U.S. Virgin Islands income tax, income tax surcharge and customs duties and other taxes on raw materials which are attributable to the operations of Vitelco; and (ii) an exemption from 12.5% of Vitelco's U.S. Virgin Islands real property, gross receipts and excise taxes. The amount of these benefits in 1990 was $694,000. Vitelco's tax benefits under the IDP are subject to renewal in 1996 and could be diminished at such time. Dividends from ATN-VI to the Company and interest payments from any member of the ATN-VI Group of companies to the Company or any affiliates not organized in the U.S. Virgin Islands may be subject to a 10% U.S. Virgin Islands withholding tax.

Taxation—Guyana

Guyana generally imposes both an income tax and a corporation tax on the worldwide income of companies registered or resident (*i.e.*, managed and controlled) in Guyana. For companies which are not "long-term insurance companies" and whose gross income is not predominantly derived from trading in goods manufactured by others, the rate of income tax is 20% and the rate of corporation tax is 25%. Thus, GT&T's income is now subject to Guyana tax at an overall rate of 45%. However, the President of Guyana announced on August 26, 1991 that the Government proposes to introduce legislation, effective January 1, 1992, reducing the tax rate to 35%. The GT&T Agreement provides that the repatriation of dividends to the Company and the payment of interest on GT&T debt denominated in foreign currency are not subject to withholding taxes. It also provides that fees payable by GT&T to the Company or any of its subsidiaries for management services they are engaged to render shall be payable in foreign currency and that their repatriation to the United States shall not be subject to currency restrictions, withholding taxes or any other taxation by the Government of Guyana.

Litigation

The Company, through its subsidiaries, ATN-VI, Vitelco and Vitelcom, is presently involved in litigation, which was originally commenced on May 10, 1990, with respect to its insurance coverage for the damage caused by Hurricane Hugo in September 1989. On November 20, 1990, an administrative decision of the Virgin Islands Commissioner of Insurance (the "Commissioner") awarded Vitelco $4,922,187 for property damage in excess of the $12,500,000 previously paid to it by Cigna Property and Casualty Insurance Company, its insurance carrier, awarded Vitelcom $1,131,405 for business interruption and ruled that Vitelco was entitled to an unspecified amount for business interruption resulting from damage to Vitelco's property other than transmission lines, telephone poles and cables. The Commissioner held that Vitelco was not entitled to recovery with respect to business interruption coverage for damage to its transmission lines, telephone poles and cables. The Company and the insurance company have each appealed to the United States District Court of the Virgin Islands. On appeal, the Company is seeking $8,209,607 in property damages in excess of the $12,500,000 previously paid and $23,772,000 in business interruption insurance (including the $1,131,405 awarded to Vitelcom). In addition, in its appeal, the Company is pursuing a claim against the insurance agency which obtained its insurance coverage, Sedgwick James of Nebraska, Inc., for negligence, malpractice and breach of fiduciary duty. The Company's Consolidated Financial Statements as of December 31, 1990 and as of June 30, 1991, contain a receivable in the amount of $9.9 million consisting of $5 million of incurred costs which were not recovered by revenues and $4.9 million of property damage. If and to the extent that the Company ultimately fails to collect at least $5 million on its business interruption claims for unrecovered costs, there will be a charge to earnings in the period in which such determination is finally made. If and to the extent that the Company does not receive at least $4.9 million on its property damage claim, the Company believes that Vitelco's rate base will correspondingly increase and, accordingly, its net fixed assets would also increase. In addition, the Company is pursuing a claim of $18,250,138 (as an alternative to the $23,772,000 claim referred to above) for business interruption resulting from damage to Vitelco property other than transmission lines, telephone poles and cables. The Company and its legal counsel in such litigation believe that it is probable that the Company will recover amounts significantly in excess of the $5 million it has accrued in respect of its business interruption losses. However, there can be no assurance that such amount will be recovered. See Note D to the Consolidated Financial Statements.

The Company is also involved in other litigation, the ultimate disposition of which, in the opinion of the Company's management, will not have a material adverse effect on the financial position or operations of the Company.

Employees

At June 30, 1991, the Company, through its subsidiaries, employed approximately 1,100 individuals. At such date, Vitelco employed approximately 500 individuals. Approximately 300 of Vitelco's employees are represented by the United Steel Workers of America (the "Steel Workers"). Vitelco's contract with the Steel Workers expires on September 30, 1993, and Vitelco anticipates that it will enter into negotiations relating to a new contract prior to such date.

Since the date of the GT&T Acquisition, GT&T has reduced the size of its work force by approximately 50% by offering a severance package to all of its employees consisting of a raise of approximately 90% in salary for each of the employees and payment of 22 months' salary (at the increased rate). Of a total of approximately 1,100 employees, 537 employees accepted GT&T's severance offer in March 1991, at a total cost to GT&T of approximately $400,000. Pursuant to an agreement approved in May 1991 by the Postal and Telecommunications Workers' Union, which represents all of GT&T's employees, the remaining employees (approximately 600) receive salary equal to a minimum of approximately 300% of their January 1991 salaries to adjust for devaluation of the Guyanese currency (approximately 184% since January 1, 1991), among other things. No formal contract has yet been executed with the union.

The Company considers employee relations to be satisfactory and has not experienced any material work stoppages or strikes.